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WEAG: the course to be followed

REPORT

submitted on behalf of the Technological and Aerospace Committee
by Mrs. Guirado and Lord Dundee, co-Rapporteurs

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1. Adopted unanimously by the committee.

2. *Members of the committee:* Mr. López Henares (Chairman); MM. *Lenzer, Marshall* (Vice-Chairmen); MM. *Arata, Atkinson, Biefnot, Mrs. Blunck, MM. Cherribi, Coviello, Curto, Mrs. Durrieu, Mr. Feldmann* (Alternate: *Kriedner*), Mrs. *Gelderblom-Lankhout, Mrs. Guirado, MM. Jeambrun, Le Grand, Litherland* (Alternate: *Alexander*), *Lorenzi, Magginas, Nania, Poças Santos, Probst, Sarens, Sofoulis, Theis, Sir Donald Thompson, Mr. Valleix.*

Associate member: Ms. *Jørgensen.*

N.B. *The names of those taking part in the vote are printed in italics.*

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Draft Recommendation

on WEAG: the course to be followed

The Assembly,

- (i) Considering that the security and defence of Europe as provided for in the Treaty on European Union call for independent military means and that this necessarily depends upon an independent European defence industry which is competitive at world level;
- (ii) Noting the shrinking armaments market, greater competition in this area and the increased cost of military equipment, particularly due to technological evolution;
- (iii) Noting that Europe has an advanced defence industry but which has a surplus capacity and also suffers from poor co-ordination of efforts in research and development, technology and production;
- (iv) Drawing a comparison between the European defence industry and the American industry which both need the backing of a large domestic market to amortise investments in research and development, production and industrialisation in economic conditions acceptable to national budgets;
- (v) Noting that three countries, France, Germany and the United Kingdom, have 80% of the defence industry capabilities in Europe;
- (vi) Taking into account, however, the fact that no country in Europe can now hope to maintain an industry which alone would be capable of satisfying all its military requirements;
- (vii) Believing that the defence industry should be improved and restructured at national and European level in order to encourage transnational European firms;
- (viii) Considering that the need for European co-operation in armaments matters is based on political, military, economic and industrial reasons which are still topical and are today more pertinent and imperative than ever;
- (ix) Believing that at the present time the strengthening of European co-operation in armaments matters is an essential condition for maintaining a European defence industry which must form the basis of the future European defence system which it is destined to serve;
- (x) Taking into account the fact that the revision of national military policies and the consequential restrictions made in the armed forces of the various countries are a direct and immediate effect of the disappearance of the Soviet threat accompanied by a widespread financial crisis, which justifies a more or less general reduction in national defence budgets;
- (xi) Pointing out that these budgetary reductions, coming at a time when defence policies have to be defined, are based more on financial considerations than on reasons of security and defence;
- (xii) Recalling that many efforts have been made by Europe in the last forty years in regard to armaments co-operation but not much real progress has yet been made;
- (xiii) Recalling, inter alia, the Rome declaration of 1984 whose aims include “ the development of European co-operation in the field of armaments, in respect of which WEU can provide a political impetus ”, that the declaration by the WEU member countries annexed to the Treaty on European Union refers to the need for enhanced co-operation in the field of armaments “ with the aim of creating a European armaments agency ” and that the Noordwijk declaration notes that the elaboration of a European armaments policy is based, on the one hand, on the activities developed by the Western European Armaments Group (WEAG) and, on the other, on studies pursued for creating a European armaments agency and on the conclusions of the informal group of government experts of member states of WEU-WEAG and of the European Union which has just studied the options for a European armaments policy;
- (xiv) Considering that the transfer to WEU of the IEPG, now WEAG, is a consequence of the wishes set out in the preceding paragraph;
- (xv) Considering that WEAG is the most suitable body to encourage a European defence identity, particularly because it covers all the activities linked to armaments which are considered complementary and should be developed in a coherent manner, i.e. the harmonisation of requirements, programmes in co-operation, research and development and procurements policy;

(xvi) Considering that co-operation between state and industry is the surest means of creating a strong European domestic market;

(xvii) Considering that co-operation is more effective when started at the development stage or even at the stage of research and that, consequently, it requires a true effort to harmonise operational requirements between states which WEU does not seem to be able to achieve at present in the absence of strong political impetus;

(xviii) Considering that the resources attributed to research, development and technology by the European governments are three to four times lower than the resources granted by the United States Government for these activities and that this disparity is widening further;

(xix) Believing that, in spite of current progress, the EUCLID programme has structural weaknesses and is thus encountering competition from bi- or trilateral co-operation which is easier to manage;

(xx) Considering that surplus production capacity should be eliminated wherever it exists, some diversion of capacity, however, should be preserved in Europe insofar as the vital interests of sovereign nations have to be taken into account;

(xxi) Regretting that measures to open European defence equipment markets are not being applied in practice and exist only as declarations of intent;

(xxii) Considering, however, that the systematic application of fair return is an economic handicap which increases costs and surplus production capacities;

(xxiii) Noting the difficulty which the various countries have in reaching agreement on delicate questions such as competition, the creation of a defence industry and technology base, the backing to be given to smaller countries and regulations governing procurement;

(xxiv) Gratified that the priorities of Panel III include the strengthening of the European defence industry and technology base, the aim of which is not to wage a war against the United States but to have a competitive European defence industry at world level;

(xxv) Emphasising the importance of competition between WEAG and the European defence industries represented by EDIG for strengthening the industrial and technological basis of European defence;

(xxvi) Regretting, nevertheless, the absence of a true partnership between the NADs and EDIG and the absence of an answer from national authorities to the EDIG memorandum on the 1996 intergovernmental conference;

(xxvii) Finally, regretting that the NADs, at their meeting on 20th October 1995, failed to reach agreement on the creation of a European armaments agency;

(xxviii) Noting that at that meeting the NADs preferred not to give an opinion on the creation of a Franco-German co-operative structure, believing that this decision was a matter for defence ministers at their meeting in Madrid on 13th November,

RECOMMENDS THAT THE COUNCIL

1. Concerning the WEAG Panels:

Panel I

- establish closer relations between Panel I and the Eurolongterm sub-group allowing members to establish contact and remain in contact with the national representatives of Eurolongterm in order to improve the interaction and exchange of information;
- redefine the terms of reference of Eurolongterm;
- encourage countries to present their equipment replacement schedules in an authentic manner at equipment review meetings;
- facilitate the assistance of land, sea and air experts from each country in equipment review meetings in order to maximise the chances of success of projects identified as potential;

- reflect on the means of achieving the goal of a ten-year plan, updated yearly, for equipping European armed forces, at least for the major programmes;
- encourage and institutionalise the harmonisation of operational requirements in order to identify those which are suitable for the achievement or use of common equipment, taking into account the need to harmonise military requirements as early as possible, at the research or development stage;
- envisage the drafting of a white paper identifying defence requirements of European countries in order to allow them to produce equipment in conformity with joint requirements insofar as possible;
- establish permanent committees between the sub-groups of Panel I and the corresponding CEPA steering committees;
- strengthen relations between Panels I and III insofar as questions linked to fair return, offsetting and competition, which are obstacles to agreement on the establishment of an efficient European defence equipment market, are of direct interest to Panel I;

Panel II

- decide to give greater autonomy to the Research Cell by giving it the status of subsidiary body of WEU (passage to step 2) which would allow it to award and follow up contracts;
- envisage, as soon as the Western European Armaments Organisation is created, including the EUCLID cell in that body in order to give the agency an operational activity and new impetus to the EUCLID programme;
- envisage the possibility for the EUCLID cell, once it has an independent budget, to work out a research and development plan on the basis of military requirements extending beyond the present responsibilities of the WEU Planning Cell and of Eurolongterm;
- seek and apply means of rectifying EUCLID's weaknesses by shortening timescales, streamlining procedure and facilitating negotiations;
- take into account in the EUCLID programme the subjects of research identified in the other co-operation agreements and frameworks which exist between the WEAG countries;
- decide to launch a study on the basis of the one proposed by EDIG on the identification of technologies considered to be priority for the defence of WEAG countries;
- multiply and intensify relations between Panel II and EDIG on the basis of mutual confidence;
- arrange for the Eurofinder machinery, which would allow EUCLID to evolve, to become operational at the beginning of 1996;

Panel III

- encourage the creation of European standards for an open market;
- reflect on the preparation and final shape of a type of contract to cover procurements in the framework of the European armaments agency;
- decide that the WEAG panels no longer work on a voluntary basis but be composed of permanent members with full responsibility for the work of those panels in order to gain in terms of time, efficiency and continuity;

finally, encourage the establishment of more sustained relations between the various panels and the ad hoc group, in view of the complementarity and coherence of the work pursued in WEAG;

2. Create a committee of chiefs of staff as a necessary framework for identifying requirements and joint equipment;

3. Plan a variable geometry European armaments agency which would associate on the one hand in a wider framework the thirteen countries to which would apply a set of general rules and regulations and, on the other hand, in a more restricted framework, countries likely to agree on specific rules, and ensure that this organisation uses the complementarity of Community and intergovernmental blocs, taking into account the fact that the Commission has financial ways and means which could be of benefit to the defence industry in Europe;

4. Specify ways and means of creating the European projects offices;
5. Study changes to the concept of fair return by means of intelligent compensatory measures or economic spin-off, particularly through a policy of existing areas of interest leading to specialisation;
6. Promote the definition of a European defence industry and technology base;
7. Establish a true partnership between the national armaments directors and EDIG;
8. Urge national authorities to answer the EDIG memorandum on the 1996 intergovernmental conference;
9. Give its views on the creation of a Franco-German structure for co-operation, taking into account the fact that this initiative is not competitive but complementary.

Explanatory Memorandum

(submitted by Mrs. Guirado and Lord Dundee, co-Rapporteurs)

I. Introduction

1. The idea of giving Europe an institutional framework for promoting European co-operation in armaments is not new. After the end of the second world war and the establishment of the western defence alliances, WEU and NATO, armaments co-operation became a permanent goal, progress towards which through many initiatives is, as we shall see later, proving both tortuous and limited.

2. To the political and military reasons originally underlying these ideas, which are still fully relevant today, must be added other economic and industrial factors which the present situation has helped to make more significant.

3. The choice of Western European countries to use high technology to improve the performance of weapons systems has led to steady increases in the cost of procurement and possession of armaments. Moreover, the segregation of armament industries and fragmentation of defence efforts is leading to costly duplication; at the same time, the reduction in defence budgets has as its corollary a loss of purchasing power.

4. Europe must consequently find a place for exchanging ideas and for joint action to strengthen European co-operation in armaments, now more essential than ever for maintaining a European defence industry in the service of a future European defence.

II. The institutional framework and armaments co-operation policy: historical background

(a) FINABEL

5. In October 1953, the chiefs of staff of the armies of France (F), Italy (I), the Netherlands (NL), Belgium (Be) and Luxembourg (L), decided to form an organisation, FINBEL, the aim of which was to enable them to study jointly the measures and means necessary to achieve closer and more effective co-ordination in the area of weapons for use on land. In 1954, the Atlantic Alliance gave FINBEL de facto recognition as a regional organisation within its framework but independent of it.

6. The formation of FINBEL can therefore be considered as Europe's first step towards institu-

tionalising co-operation in armaments; forty years later this project still features, as an increasingly urgent item, on Europe's agenda.

7. After joining NATO in May 1955, Germany was invited to follow FINBEL's work by acquiring observer status and in 1956 it joined that organisation as a full member¹.

8. The United Kingdom, at the time reluctant to participate in multilateral organisations outside the strict framework of NATO did not decide to join FINABEL until 1972, the date of its entry into the European Community. The arrival of the United Kingdom made that organisation coincide with WEU in terms of member countries, but this was not the case as regards the objectives of the two organisations. FINABEL's main object was to promote close military co-operation between NATO member countries, which, on account of their geographic position, shared similar concerns and needs. To this end, it endeavoured to define and harmonise operational needs by looking to the following areas of application:

- tactical and logistic studies;
- studies of the use of tactical units;
- studies of military specifications for equipment for land armies;
- studies of training methods and procedures;
- joint assessments;
- exchanges of information (including classified information).

9. Joint production of defence equipment does not fall within FINABEL's area of responsibility, as it is not normally within the remit of army chiefs of staff.

10. As a co-ordinating body, FINABEL based its operations on two principles: complete freedom of participants and unanimous decision-making.

11. FINABEL was a first attempt to standardise land-based weapons: the organisation reached a series of agreements on specifications and operational concepts and sub-concepts. Once these agreements were signed, each country was free to take them into account in their national development work in so far as this was considered timely and appropriate. In short, FINABEL's work led to

¹ From that time FINBEL changed its initials to FINABEL.

progress, albeit modest, along a path which, as the facts show, has scarcely been marked by success.

(b) The Standing Armaments Committee (SAC)

12. In May 1955, the WEU Council decided to create the Standing Armaments Committee as one of its subsidiary bodies. This decision was based on recognition of the "desirability of increasing the efficiency of the forces of the countries of Western European Union and improving their logistics; of seeking the best method of using the resources available to these countries for equipping and supplying their forces and of sharing tasks in the best interests of all".

13. The decision of the Council stipulated:

"The Standing Armaments Committee shall, in close relation with the North Atlantic Treaty Organisation, seek to improve consultation and co-operation in the sphere of armaments with a view to finding joint solutions which would assist governments of member countries in meeting their equipment requirements.

To that end, it shall encourage, on a case by case basis, agreements or arrangements on such subjects as the development, standardisation, production and procurement of armaments.

These agreements or arrangements may be concluded between all the countries of Western European Union or between some of them. They would remain open to participation by other countries of the North Atlantic Treaty Organisation².

14. Subsequently, the Rome declaration of October 1984 and the ministerial meeting held in Bonn in April 1985 led to the creation of three new agencies with responsibility for security matters. Agency I's task was to study questions relating to armaments control and disarmament, Agency II had responsibility for studying security and defence questions and Agency III for the development of armaments co-operation, together with the international secretariat of the Standing Armaments Committee.

15. In fact, the Rome declaration included among other provisions "the development of European co-operation in the field of armaments in respect of which WEU can provide a political impetus".

16. These three agencies and the Standing Armaments Committee were abolished by the Council of Ministers of WEU in November 1989. Paragraph 12 of the decision setting up this com-

mittee stated that "the government of each member country may submit to the Council of Western European Union proposals for the modification of the functions or structure of the Standing Armaments Committee in the light of experience gained and results obtained".

17. Thus a body has disappeared which, over its thirty-four years of existence, failed to exercise the important functions attributed to it and which never managed to secure the production of equipment suitable for WEU. The development of bodies with parallel tasks and then the creation in 1976 of the Independent European Programme Group (IEPG) no doubt hindered the achievement of the objectives entrusted to the Standing Armaments Committee in 1955, but most probably the main cause of the failure of the joint production of armaments, irrespective of the institutional framework, is the inability of national military staffs to define jointly their needs and requirements. It should nevertheless be noted that the Standing Armaments Committee succeeded in establishing relations between the authorities responsible for armaments in Europe, which have, over time, borne fruit, as various co-operation programmes show.

(c) Eurogroup

18. Eurogroup was formed on 14th November 1968 as an informal association of defence ministers of the European countries members of NATO. The purpose of the group was to strengthen the alliance as a whole by making a more cohesive and effective European contribution. Eurogroup was intended to provide defence ministers with an informal forum to debate questions of particular political and strategic interest and to promote practical co-operation.

19. The member countries of Eurogroup are Belgium, Denmark, Germany, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Turkey and the United Kingdom. Neither Iceland nor France are members.

20. Eurogroup operates on a flexible and pragmatic basis and the meetings of ministers of defence immediately prior to the ministerial meetings of the NATO Defence Planning Committee (twice a year) lay the foundations for the work of the Staff Group. The Chairmanship of Eurogroup rotates on an annual basis.

21. The Staff Group is composed of members of the national delegations to NATO Headquarters and its task is to follow up day-to-day work. The United Kingdom provides the necessary secretariat.

22. In 1970 Eurogroup launched the European Defence Improvement Programme (EDIP). This provided for substantial investment over five

2. Decision of the Council of Western European Union setting up a Standing Armaments Committee, 7th May 1955.

years in infrastructure work, the development of an integrated communications network and the financing of arms procurement and transport aircraft.

23. Where armaments are concerned, Eurogroup has co-ordinated Europe's procurement of American equipment, for example the Lance surface-to-surface tactical missile and the F-16 aircraft purchased by various European countries. For the organisation of its work, Eurogroup is divided into a series of sub-groups, some of which were transferred to WEU subsequent to a decision of the Council in March 1993:

- EUROCOM: Eurocom's work is to ensure that the various national communications systems meet previously fixed technical and operational requirements allowing interoperability of the various equipment in service. From 1985, all equipment under development has been required to comply with Eurocom standards.
- EUROLOG: The aim of this subgroup is to promote logistic co-operation in order to achieve increased efficiency and savings in managing the procurement system. Eurolog has monitored armaments co-operation programmes closely, identifying logistical aspects of which further account needs to be taken. We shall return to this later.
- EUROLONGTERM: Its brief is to develop long-term operational doctrines and draw up specifications for armaments and military equipment. In order to carry out these tasks, Eurolongterm has set itself two general objectives, to establish joint operational concepts and to define harmonised specifications for equipment, both of very great importance and at the same time difficult to achieve. We will return to this subject later.
- EUROMED: This subgroup was created to enhance co-operation in military medicine.
- EURONAD: This subgroup brings together the National Armaments Directors, whose aim is to reduce the cost of armaments and defence systems through standardisation and joint procurement. The creation of the IEPG virtually brought an end to the work of this subgroup.
- EURO/NATO training: Its purpose is to organise training in a multinational framework.

24. After its initial years of consolidation, Eurogroup has achieved substantial work in attempting to lay foundations for the standardisa-

tion of armaments and military equipment. However the absence of a weapons producer state such as France has hindered its efforts.

(d) Independent European Programme Group (IEPG)

25. The IEPG, a structure for consultation and co-operation between the European partners of NATO except Iceland, was formed in 1976.

26. The creation of the IEPG arose from the will to increase co-operation between member countries in the area of defence equipment, the realisation of the need to promote European co-operation and the desire to strengthen the cohesion of the Atlantic Alliance and maintain its conventional forces at an adequate level.

27. The main reasons for creating this body were to use efficiently the financial means available for research and development and the production of equipment, to increase the standardisation and interoperability of equipment, which implies co-operation in logistics and training, to maintain a firm European technological and industrial base and to strengthen European co-operation in trade areas.

28. In order to achieve these aims the IEPG, in accordance with the spirit of the Atlantic Alliance and without calling national responsibilities into question, carried out work more specifically in the areas of:

- harmonisation of programmes and equipment replacement timetables;
- agreements for carrying out joint projects;
- elimination of duplication of effort in developing weapon systems.

29. Until 1984, the Group's work was confined to exchanges of information on national armaments and equipment procurement procedures and the search for and analysis of possible models for managing joint projects. Starting in 1984, IEPG began to meet at minister of defence level with the purpose of giving greater impetus to armaments co-operation. Ministers were agreed on the need to revive the IEPG through more intense and systematic co-operation.

30. New objectives proposed by the ministers included the development of European co-operation in research and technology and a study on improving firms' competitiveness and strengthening Europe's industrial base in the defence field. This study "Towards a stronger Europe" was carried out by a group of independent experts and submitted in early 1987. Among its recommendations should be highlighted the need progressively to establish an open and competitive market in armaments, to boost the European research effort

and provide stimulus to countries with a developing defence industry (DDI countries – Greece, Portugal and Turkey).

31. Following this study, a plan of action was drawn up with a view to establishing a European defence equipment market and a European technological plan, both of which were approved by defence ministers in Luxembourg in November 1988. Following this same meeting the EUCLID (European co-operation for the long term in defence) programme was launched – a joint technological research programme for military purposes.

32. In 1990, the IEPG structure was joined by the EDIG (European Defence Industrial Group). EDIG is a forum created by national professional associations bringing together the defence industries of IEPG member countries. EDIG has undoubtedly contributed to developing co-operation by giving firms a direct interest in it.

33. IEPG's achievements were modest but positive. The Group had the advantage of providing a political framework in which European defence ministers met regularly in order to define ways of intensifying armaments co-operation. However, it has quickly become urgent to put to use the experience gained in this field in order to develop a common defence equipment procurement policy in the longer term. Just when the organisation risked losing all credibility, the defence ministers decided, in Oslo in March 1992, to analyse the future rôle of the IEPG in the new European security architecture, along the lines laid down at Maastricht.

(e) The reactivation of WEU

34. The Ministers for Foreign Affairs and of Defence of the WEU member countries, meeting in Rome on 26th and 27th October 1984 on the thirtieth anniversary of the signing of the Paris Agreements modifying the Brussels Treaty, adopted the Rome declaration – the true point of departure for the renewal of WEU, which it was hoped to relaunch and expand.

35. The Rome declaration was thus the outcome of the debate conducted in recent years on the need to strengthen the European pillar of the Atlantic Alliance.

36. In short, WEU was to be made an efficient organisation by taking advantage of the possibilities it offered and adapting it to the new European reality.

37. The aim of the Rome declaration was to harmonise views on the security conditions in Europe and in particular: “ the development of European co-operation in the field of armaments in respect of which WEU can provide a political impetus. ”

38. The platform on European security interests adopted in The Hague in October 1987 limited itself to setting the directions in which the organisation should work with a view to defining the conditions and criteria of European security. The logical consequence of this process would be the renewal, through the Treaty on European Union and the annexed declarations, of the aims described above.

39. Title V, Article J.4 of the Treaty on European Union stipulates that “ The common foreign and security policy shall include all questions related to the security of the Union, including the eventual framing of a common defence policy, which might in time lead to a common defence ”. Paragraph 2 of this article specifies that “ the Union requests Western European Union (WEU), which is an integral part of the development of the Union, to elaborate and implement decisions and actions of the Union which have defence implications ”.

40. The declaration of the member countries of WEU, annexed to the Treaty on European Union, which concerns the functions of WEU and its relations with the Atlantic Alliance states that “ member states agree on the need to develop a genuine European security and defence identity and a greater European responsibility in defence matters ... WEU will be developed as the defence component of the European Union and as a means to strengthen the European pillar of the Atlantic Alliance. To this end, it will formulate common European defence policy and carry forward its concrete implementation through the further development of its own operational rôle ”.

41. An aspect of the operational rôle of WEU referred to in the declaration states that “ other proposals will be examined further, including enhanced co-operation in the field of armaments with the aim of creating a European armaments agency ”.

42. The Council of Ministers for Foreign Affairs and of Defence of WEU, meeting in Bonn, in June 1992, approved the Petersberg declaration and redefined and reinforced the operational rôle of the organisation: “ WEU member states have been examining and defining appropriate missions, structures and means covering in particular a WEU planning cell and military units answerable to WEU... ”. These military units available to WEU and under its authority will be organised on a “ multinational and multiservice basis ”.

43. Finally, in the Kirchberg declaration of May 1994, the ministers tasked the Permanent Council to begin work on the formulation of a common European defence policy. A document on this subject was adopted at the Noordwijk ministerial meeting in November 1994. In the Noordwijk declaration “ the ministers revived, in an active and specific manner, thinking on the

future tasks of WEU and its rôle in existing politico-military structures in Europe, with a view to the preparation of the 1996 intergovernmental conference and also to take account of the evolution of the geostrategic and geopolitical framework of the European continent³.”

44. As regards armaments co-operation, the Noordwijk declaration makes clear that the development of a European armaments policy is based on the one hand on the activities being developed by the Western European Armaments Group (WEAG) and on the other hand on the studies being pursued for creating a European Armaments Agency and, finally, on the conclusions of the informal group of governmental experts of the WEU-WEAG and EU member states which has just studied the options for a European armaments policy. According to this declaration, the issues to be addressed in order to advance European armaments co-operation and the development of a European armaments policy are as follows:

- the rôle of armaments co-operation in strengthening the European defence identity;
- the improvement of the interoperability of armed forces, through, inter alia, the harmonisation of requirements and standardisation of equipment;
- the reduction of national research, development and production costs which overlap;
- creation of conditions for an integrated, rationalised and competitive European defence industry;
- identification of conditions and measures which could improve market conditions for a more competitive approach to European, including intra-European, procurement;
- for exports outside Europe and in the context of the informal group, study of the possibilities of harmonising national practices, taking into account developments in arms export controls under a common European foreign and security policy and study of ways to translate the developments of the CFSP into practice in the area of arms export controls.

45. Apart from the transfer to WEU of the functions of the IEPG (dealt with in the next subsection), other measures relating to armaments co-operation have been taken by the WEU Council during the period of reactivation of the organisation.

3. WEU Information report – Assembly of WEU, March 1995.

46. Information and Eurocom activities were transferred to WEU at the meeting of the Council of Ministers of WEU on 19th March 1993, with the transfer of Eurocom activities taking effect on 1st August 1993 and of the information activities on 1st January 1994.

47. Eurolog and Eurolongterm activities were effectively transferred on 15th January 1994, in conformity with a joint decision of the WEU Council and the permanent representatives of Eurogroup. According to the second part of the thirty-ninth annual report of the Council to the Assembly of WEU, “this decision calls in particular for the formulation of new terms of reference for each of the Eurolog and Eurolongterm Steering Groups, so that their activities may be adapted to WEU requirements”.

48. The first part of the fortieth annual report of the Council explains the new arrangements for continuing Eurocom and information activities (now known as public relations).

49. The main aim of Eurocom is “to promote interoperability between tactical communications systems of the land forces of the WEU nations” and also “to exploit opportunities for interdependence in systems and equipment development and production, thereby making the best uses of national resources”.

50. Since its transfer to WEU, Eurolog has become the Western European Logistics Group (WELG). This group maintains close liaison with the Planning Cell and is assisted by three sub-groups: Maritime, Land and Air.

51. Your Rapporteurs will tackle the question of Eurolongterm and its terms of reference in WEU in more detail in connection with WEAG Panel I.

(f) The transfer of the Independent European Programme Group to WEU: birth of the Western European Armaments Group (WEAG)

52. The Treaty on European Union and the appended declarations were carried into effect immediately: on 6th March 1992, the IEPG ministers of defence, meeting in Oslo, decided to analyse the rôle the group was to play in the new European security and defence architecture.

53. Shortly afterwards, in Petersberg in June 1992, the Council of WEU Ministers for Foreign Affairs and of Defence welcomed this decision and decided unanimously that a group of WEU and IEPG experts would undertake a study of the rôle and functions of a possible European Armaments Agency.

54. In December 1992, the IEPG defence ministers, meeting in Bonn, decided to transfer the functions of the group to WEU. The ministers

based their approach on a series of basic principles stipulating full participation for all member countries of the IEPG, the creation of a single European authority in this area to avoid any duplication, continuity in all armaments co-operation authorities of policies agreed in the IEPG, maintenance of existing links with NATO, management of European armaments co-operation activities by National Armaments Directors (NADs) responsible to defence ministers and, lastly, maintenance of the links between the IEPG and the EDIG.

55. In Rome, in May 1993, the IEPG defence ministers agreed practical measures regarding the transfer of the IEPG to WEU. The armaments co-operation authority was henceforth to be the WEAG, supervised by the defence ministers of the member countries who would meet once a year (at least) in co-ordination with the WEU Council of Ministers and, finally, the permanent secretariat would be transferred from Lisbon to Brussels (March 1994). As provided for in the Petersberg declaration, in March 1993 the NADs created the ad-hoc group responsible for studying the functions of a possible European Armaments Agency. The group was tasked with studying the legal bases on which the agency might be created, its structure, tasks, staffing and questions relating to financing, and, finally, relations with both the European Union and NATO. These questions will be examined further in the chapter on the European Armaments Agency.

56. At the meetings of the WEAG defence ministers and the WEU Council in Luxembourg in November 1993, it was decided to establish, in the framework of WEU in Brussels⁴, an armaments secretariat answerable to the NADs, the staff of which would be recruited under the same conditions as that of the WEU secretariat. It should be recalled that the officials working for the IEPG secretariat in Lisbon were paid directly by their home countries.

III. Armaments procurement and situation of the defence industry in Europe

(a) Budgetary constraints of military policy in Europe

57. Although reviews of military policies and reductions in European armed forces are primarily the direct consequence of the disappearance of the traditional threat from the East, the underlying budgetary rationale must not be ignored. Alongside international constraints, public spending crises in various countries are the reason for cut-backs in military budgets.

4. At the same time, the decision was taken to close the IEPG permanent secretariat in Lisbon.

58. A brief overview of the development of defence financing in Europe reveals two categories of countries:

(i) Those which are or were continuing until now to increase or stabilise their defence spending both at constant or current prices (Denmark, France, Greece, Luxembourg and Portugal). In 1994, despite the sensitive position of public finances, resources available for financing military equipment increased more rapidly than the average of the state budget. The most important armaments programmes are implemented without perceptible change.

59. *In France*, nevertheless, austerity and lack of choice became the order of the day for the 1996 defence budget. The removal of F 8.4 billion worth of defence funding sounded the death knell for the 1995 military programme law⁵ and with it the hopes of the defence industry in that connection as far ahead as the year 2000. Title V (equipment) bore the brunt of the cut-backs. "In general terms the effect of this budget will be a severe falling off in the number of orders, which will undoubtedly have serious repercussions on the industry"⁶. The Chairman (RPR) of the Defence Committee of the French National Assembly, Mr. Jacques Boyon, recently expressed criticism, endorsed by many members both from the opposition and from the majority, of the defence budget presented by Charles Millon⁷.

60. It appears that, rather than cancellations, the Minister of Defence envisages programmes being delayed, carried forward or rescheduled. The budget will be reduced by 0.8% at today's values (3.3% at constant values) as compared to the original 1995 Finance Act. In October 1995, the RPR member, René Galy-Dejean, Rapporteur for the defence industries, unveiled a report in which he stated that the Strategy Committee of the Ministry of Defence was currently working on a Title V⁸ assumption of F 75 billion per annum⁹, in other words a reduction of 20% as compared with the 1993 armaments budget of F 95 billion. The consequences were obvious: withdrawal of major armaments programmes, loss of tens of thousands of jobs¹⁰, firms in crisis or threatened with extinction. This would end France's position as the exception in recent years, when Germany, the United Kingdom and the

5. The military programme law passed provided for 0.5% minimum growth as from 1997.

6. See Air et Cosmos, International aviation, 6th October 1995.

7. See the interview with J. Boyon in "Les Échos", 29th and 30th September 1995.

8. Annual procurement of military equipment.

9. La Tribune Desfossés, 27th-28th October 1995.

10. The Rapporteur estimates that a total of 50 000 jobs of the 200 000 in the industry will have disappeared in two years.

United States were reducing armaments expenditure by a quarter while France sought increases of 0.5% per annum under its original programme. The only certainties are that priority will be given to military satellites. Further delays in bringing the Rafale into service cannot be ruled out after the cuts in the air force's budget. In October the Director of Procurement also announced a "staggering" of production affecting in particular the FLA and the NH-90 and Tiger (Eurocopter) military helicopters. As to long-term savings on future programmes (future large aircraft, NH-90 helicopter) there would be few savings in the short term.

61. In July 1995, the Defence Minister, Charles Millon, decided to create a "strategic committee" to give in-depth consideration to preparing a new military programme, and its implications, particularly for the restructuring of the defence industry. It is to make specific proposals to the government on adapting the French defence apparatus. It will be for the defence council to decide, in spring 1996, on major strategic guidelines following the recommendation of the strategic committee. As Mr. Millon recently stated: "We must adjust our defence costs to the means our country can make available"¹¹. As to government priorities, space, intelligence and research and development are all to be retained.

(ii) Countries which, since the end of the cold war, have associated reductions in defence expenditure with far-reaching restructuring (Belgium, Germany, Netherlands, Spain and the United Kingdom).

62. In 1994, *Germany's* defence budget (excluding pensions) was G DM 47.7 (GF 161) or 81% of France's budget¹². This budget fell to its lowest level in 1995 and seems likely to stabilise in the years to come in terms of procurement. Financial efforts made following reunification, the current recession and the demand by a large section of German public opinion and the German Parliament for peace dividends have led to major budget reductions. In 1994 procurement was half that for 1990.

63. All new military orders are frozen in order to achieve savings of DM 860 millions and several weapons programmes have been abandoned.

64. Defence spending in the *United Kingdom* is falling sharply. The proportion of defence spending in the overall United Kingdom budget and the feeling that that budget could be better spent in the 1980s led the British Government to try to

make more efficient use of its defence appropriations. Certain actions were undertaken at the time such as the denationalisation of the defence industries and the establishment of a procurement policy based on the "best value for money" by the then Procurements Director, Sir Peter Levene. In the early 1990s, the United Kingdom Government was faced with the economic requirement to reduce public spending. In defence, this reduction became possible thanks to the new geostrategic situation following the end of the cold war. Since this first political decision to reduce the defence budget, the country's political authorities have exerted strong and unremitting pressure for a smaller defence budget. Responding to this political pressure, the Minister of Defence gradually brought in a series of ad hoc cost-reduction measures, before introducing a general policy of budget contraction. The methods employed by the United Kingdom for reducing its defence budget have undoubtedly proved effective since it has fallen by 20% in five years.

65. Total defence spending for the financial year 94/95 was £ 22 700 million, as compared with £ 23 300 million in 93/94. Compared with 92/93 and 93/94, a slow decline in spending on personnel is apparent and expenditure on equipment has stabilised. The forecasts for 95/96 and 96/97 are £ 21 720 million and £ 21 920 million respectively. Although it has fallen, the defence share of GDP was still 3.3% in 1994, above the average for the main European countries of NATO, and virtually the same as for France (3.4% in 1994).

66. *Belgium* has decided to place its economic priorities elsewhere¹³. Defence spending in the *Netherlands* started to fall sharply in 1993. The defence budget is frozen for five years.

67. In January 1994, *Spain* approved a new strategic concept compatible with the need to have available armed forces capable of acting efficiently when faced with the new risks that now characterise international relations. In this context, Spain's defence expenditure started to fall in constant cost terms in 1990.

68. The law on budget allocation, a programme law dating from 1982, was extended in 1987 and 1990. Although it has been in force since then, it is, however, not being complied with. The forecasts in the joint strategy plan, amended in 1990, referred to the need to maintain the link between the defence budget and the GDP. In fact, the forecasts have been revised downwards and this trend is continuing. The share of GDP allocated to defence is roughly 1.1 to 1.2%, while the framework law had established that share as 2%. In

11. Interview with the Minister of Defence, Mr. Charles Millon, La Tribune Desfossés, 3rd October 1995.

12. Figures taken from "L'Industrie Allemande de Défense" in L'Armement, Revue de la DGA, No. 46, February 1995.

13. In 1992 the government decided to freeze the defence budget at BF 98 billion until 1997.

1995, the defence budget accounted for 4.08% of the state budget – less than in 1994.

69. In recent years, *Italy* has, at one and the same time, encouraged the formation of its national standard bearer *Finameccanica*¹⁴ and attempted to develop a “Nuovo Modello di Difesa” (NMD), a new defence model which will meet the new security challenges of the geostrategic upheavals of recent years. As originally formulated, the NMD planned to invest Giga lira 55 000 in modernising *Italy*’s defence equipment over the period 1994-2003. This represented stabilisation of 1991-92 expenditure. Funding, regarded by experts as a minimum, was to be allocated to a series of national and co-operative programmes.

70. However, confining oneself to the 1995 forecasts for the Italian defence budget, the statements made by General Adelchi Pillinini, Chief of Staff of the *Aeronautica Militare Italiana* (AMI) in December 1993 still hold good today. Funding is obviously entirely inadequate even to modernise what can be modernised – there is no means of planning and therefore of making choices today that would allow us to remain credible¹⁵. The Minister of Defence had to present a budget for 1995, reduced by 7% as compared with that for 1994¹⁶. Investment has been halved in eight years. Certain programmes have been deferred, for example the *Ariete* tank, and others are likely to be cancelled, such as the EH-101 helicopter or the *Sircal* communication satellite. The *Eurofighter 2000* is the only programme specifically included in the AMI’s 1995 budget while the European future large aircraft (FLA), which is of great interest to the AMI Headquarters Staff and the Italian aeronautics industry, is still in fact a distant project.

71. In the light of the policies of European countries it seems that most countries are allowing themselves to be guided by financial considerations in establishing their military policies, rather than purely by security considerations¹⁷.

72. *Italy*’s defence has improved recently in 1995 and the budget for 1996 nominally shows a slight increase, although marginally down in real terms when inflation is taken into account. The bill on the 1996 budget allocates L 27 143 billion to defence, representing an increase on the origi-

14. See article “l’Italie forme un pôle de défense de 16 milliards de francs” in the *Tribunal Desfossés*, 14th February 1994, page 12.

15. *Air et Cosmos*, No. 1508, 3rd March 1995.

16. A 12% reduction in constant lira as compared with 1987.

17. See Professor Wally Struys, “Les contraintes budgétaires de la politique militaire en Europe” (The budgetary constraints of military policy in Europe), in “Les nouvelles données de la politique militaire de la France”, *CASE*, May 1994.

nal 1995 Finance Act. Despite this nominal increase, the defence budget thus falls to 1.45% of GDP, as against 1.48% in 1995. To offset planned reductions, equipment receives a sizable allocation. The programmes that benefit specifically are the *Ariete* tank, the A-129 *Mangusta* helicopter (which as far as delays are concerned compares with those announced in France for the *Tiger*), orders for EH-101s and the *Horizon*, *Eurofighter*, NH-90 and *EUCLID* co-operation programmes.

(b) Characteristics of the defence industry in Europe

National dimension – continuity and development

73. Fifty years after the end of the second world war – a period during which national industrial and technological bases for defence in Europe have been rebuilt – it is noteworthy that the national framework is still the main reference for the formation and maintenance of a defence industry and technology base.

74. The closely linked functions of identification and affirmation together with economic functions govern the production of military equipment. Some countries such as France, Germany, *Italy*, Spain, Sweden and the United Kingdom have often given priority to investment in their national defence industries in order to help to maintain a national identity. Moreover, defence industry and technology policies correspond to national choices and considerations.

75. Yet although this national dimension predominates, it does not go unchallenged. Ministers of defence, like industrial firms, are aware of the relative inadequacy of the funding available to them for maintaining and strengthening the defence industry and technology base and hence the need for co-operation. This is an initial limitation on the predominance of the national context as the main reference for maintaining a defence industry and technology base. From the very end of the cold war, national development models for such bases have progressively been established.

The process of internationalisation of the defence industry

76. The need to share research and development costs, which have increased exponentially, shorter production runs, the increase in unit costs and protection of national markets are economic parameters which explain the expansion and development of co-operative ventures.

77. Internationalisation includes the various forms of international co-operation in research, development, production and marketing of armaments. Not only has the process increased, but it also changed in the 1980s and 90s.

Methods

78. The process of internationalisation has been accompanied by the emergence of "national standard-bearers". These firms, which have a national monopoly in one or several areas, have been formed as a result of two trends: national authorities encouraging mergers or concentration of production capacities. One of the prime reasons is the need to have industrial and technological units whose size and expertise allow them to participate in international co-operative ventures.

79. Ad hoc association agreements enabling foreign firms to submit bids in association with local firms have recently increased in Europe. Joint venture companies have grown in number and in size since the early 1970s and particularly in the last ten years. This form of co-operation allows research and development costs to be reduced by pooling and the national markets of the various partners in the joint venture to be shared, leading to greater economies of scale and range.

80. As Pierre de Vestel points out, "joint ventures might be described as the national form of internationalisation of the defence sector". Both governments and firms are involved in this movement towards internationalisation, with states being obliged to grant firms a margin of independence. Nevertheless, interdependence in the relationship between states and monopolistic or quasi-monopolistic firms in a given area remains strong. The state and its national standard-bearer will remain closely linked until a supranational authority emerges, able to award contracts and with its own budget.

Europeanisation

81. From the 1960s onwards co-operation¹⁸ has increased in Europe, thus beginning a process of "Europeanisation", a term describing the part of the phenomenon of internationalisation involving only European partners.

82. The period from 1960 to the mid-1980s saw the real emergence of the Europeanisation process. International co-operative ventures, mostly European, managed and organised by the state, had as their objective the joint acquisition of technological expertise. Finally, the process appears to have reached maturity in the mid-1980s. The number of agreements between firms is increasing perceptibly at the same time as major development is occurring in the form of these agreements.

83. States are now faced with the need to identify the technological sector or sectors in which they need to acquire expertise at national level, those they wish to develop in the framework of

European co-operation and, lastly, the technologies they will choose to acquire on the international market through imports. From the mid-1980s onwards, the national framework has been strengthened and renewed; indeed greater flexibility now characterises the links between the state and the major armaments industries. There is a growing awareness of the need to co-operate. It may be anticipated that the process of Europeanisation of Europe's defence industry will continue in the medium term under the combined effects of increases in the cost of research and development and stagnation of or reductions in defence budgets.

Evolution of the industrial scenario

84. Increasingly, release from state control is allowing firms wider autonomy. The affirmation of national standard-bearers, the increase in co-operation agreements in the European framework and the persistence of a strong national dimension have changed the industrial scenario. In this context, firms have undergone major internal transformation and have been obliged to introduce greater flexibility into their strategies.

85. It should furthermore be recalled that firms organise their business on three levels. The national level, the area of greatest concentration of technological experience and know-how, continues to predominate in the development of their strategy; the European level, not being institutionalised, follows automatically and probably offers the greatest promise in terms of opportunities for armaments programmes and legitimacy for the defence industry in Europe; last comes the international level, which corresponds mainly to the market for American equipment and technology and, for some years now, for Japanese technologies as well. Some partnership opportunities also exist with certain newly industrialised countries, Russia, the Ukraine, and, to a lesser extent, with certain Eastern European countries.

Introduction of competition

86. From the 1980s, the traditional organisation of relations between the state and defence industries and the relationship between suppliers and purchasers was transformed. The origin of these changes lies partly in the United Kingdom's efforts to modify its armaments procurement procedures, partly in its efforts to privatise its defence industry. The Levene reforms sought to introduce greater competition into the armaments market. With the exception of the nuclear industry, the major United Kingdom manufacturers were privatised. The Single European Act did not influence defence markets directly, since they were outside the remit of the EEC (now the EU), but the general analysis of their organisation. The movement had repercussions to a lesser extent on

18. See the later paragraph on European co-operation.

other European countries¹⁹, including France. The French authorities took measures to create a greater distance between the state and the industry. There have been changes in the structure of the defence industry, especially in the electronic and aerospace sectors, both internally and externally (relations between firms).

Evolution of relations between the civilian and military sectors

87. Lastly, the defence industry in Europe must take account of another development in its technological and strategic environment: a reversal in the relationship between civilian and military technologies. There are today dual-use technologies, the use of which embodies civilian and military characteristics alike. This raises the question of the development of defence industries in this new context. The adaptation of the industrial and technology policies of the states of the European Union constitutes without doubt the major economic challenge of the post-cold war period.

88. The adaptation of the defence industry and technology base to the new technological context is essential to its own survival at reasonable cost and also represents a major challenge linked to restoring competitiveness in certain industrial sectors dependent on defence activity.

The defence industry crisis

89. Since the early 1990s, defence expenditure in the European countries members of NATO, has been falling. This new trend brings to an end the upward movement which had started in 1970.

90. Between 1989 and 1994²⁰ there was a reduction of 12%, which was most marked in Germany. Procurement of military equipment by the European members of NATO stabilised in 1994. In the EU member countries, after 68% growth in constant terms between 1975 and 1990, research and development expenditure was reduced by 16% between 1989 and 1993. Investment in research and development was affected less than production expenditure. In fact the decline in the turnover of the defence industries of the EU countries was triggered in 1985 by the fall in exports²¹. From 60 MECU in 1984 it had fallen to 49 MECU in 1992.

91. The crisis in the defence industry has had very serious social consequences. Between 1984 and 1992, 410 000 out of a total of just over a million direct jobs were lost to Europe's defence industry and the reduction will probably continue at the rate of approximately 30 000 a year over the

next few years²². Between 1993 and 1996 one can assume that the average number of industrial jobs lost each year is likely to be more than 37 000²³.

92. Further clarification can be given regarding industrial and technological aspects. Although turnover (in the defence industry) has fallen on average by 2.5 to 4% per annum, profitability of firms has on the contrary been maintained. Firms have preserved their ability for self-financing and internal adjustment in order to compete²⁴. Moreover, while investment in research and development, which increased sharply between 1973 and 1990, has undeniably fallen, the fall is less than in the production of new equipment. The proliferation of joint development agreements is today contributing to a better rationalisation of research and development expenditure. States are reducing production as a matter of priority, while trying to maintain research and development funding.

93. Situations differ according to countries and firms. In the United Kingdom, private firms, whose business began to decline from 1986, are not reacting in the same way as French or Italian publicly-owned companies, in which restructuring trends have been applied only in part. Privatised groups subject to competition, such as BAe, GEC or the German Daimler-Benz Aerospace, have on the other hand succeeded in surviving the reductions in military expenditure agreed by their respective governments.

94. European firms are present on the national and export markets. The value of European countries' armaments exports plummeted between 1987 and 1992, particularly as a result of the perceptible reduction in armaments imports to the countries of the third world and the industrialised nations. Over this period France experienced a sharper fall in its exports than did its German and United Kingdom neighbours. As Pierre de Vestel points out, although the value of arms exports has fallen sharply, the market share of the four major European countries (France, Germany, Italy and the United Kingdom) in total armaments exports rose between 1987 and 1993²⁵. Measured in terms of market share, the competitiveness of European firms in export markets is increasing. The share of the European defence industries in their national markets has also been rising for thirty years or so.

19. cf. T. Taylor: "Defence industries in international relations", Review of international studies, 1990.

20. Figures taken from the de Vestel Report. op. cit.

21. Exports since 1992 have stabilised.

22. Figures taken from GRIP, 1995.

23. Figures taken from "L'industrie européenne de l'armement: recherche, développement technologique et reconversion", STOA, final report to the European Parliament, November 1993.

24. See article by Pierre de Vestel, Air et Cosmos/aviation internationale, No. 1517, 5th May 1995.

25. From 18% of the world total between 1986 and 1988 to 29% between 1991 and 1993.

Increasingly aggressive competition

95. The development of greatest concern in the short and medium term is the increasing competition from the United States which threatens to weaken and ultimately eliminate European military/industrial potential in favour of that of the United States, which has now become extremely aggressive. European industries are therefore suffering from greater competitive pressure from a country which, by its strategy of industrial concentration, has initiated a trial of strength on Europe's traditional export markets and in the markets of Europe. For example, in 1995, Franco-German Tiger and American Apache helicopters were in competition in the Netherlands and United Kingdom markets; since European preference failed to win the day, both countries opted for the American aircraft²⁶.

96. The defence budget expressed in constant dollars at 1994 prices fell by 35% between 1985 and 1994. From 1994 to 1999 there should be a further 11% drop, leading eventually to a budget of \$ 227 billion²⁷. The procurement, research, development, testing and evaluations budget fell over the same period from \$ 176 to 81 billion. Although it was also subjected to budget cuts, the national base that supports the American armaments industry is still very large. The budgetary resources of the three countries, France, Germany and the United Kingdom, taken together, account for only half of the American budget. Moreover, the United States armaments industry has a turnover of 100 billion ecus, as against 50 billion for Europe. Although the reduction in military expenditure has mainly affected equipment procurement, conversely, the percentage devoted to research and development has increased considerably. United States spending on research and development is four times greater than its European equivalent. If this situation continues, the technology gap will widen to the advantage of American industry and ultimately there will no longer be competition between the latter and European industry in as much as the weapons systems will not be comparable.

97. Moreover, in recent years this industry has become increasingly internationalised and achieves a third of its turnover from exports. Paradoxically, the American defence industry is the least threatened, given its domestic market, which has made massive efforts over the last five years to restructure and improve its productivity. The first to react to the general fall in military expenditure, American industry has eliminated 1.1 million jobs since 1987, to which 700 000 further job

losses may be added between now and the end of 1997²⁸.

98. In 1993, Hughes Aircraft bought out the Missiles Division of General Dynamics. Martin Marietta absorbed the Aerospace Division of General Electric and the Space Division of General Dynamics. In October 1994, two of the most important Pentagon suppliers, the Lockheed aircraft company and the electronic firm Martin Marietta, organised a "mega-merger", creating the world's leading defence "pole", a giant company with a turnover of \$ 23 billion.

99. The industrial strategy of the American Government and industry is to strengthen the first or second ranking companies in a given field and eliminate other players through concentration by means of takeover or merger. Given their size, the virtual monopolies thus created will be able to guarantee that United States technological and commercial capabilities are maintained, despite shrinking national budgets²⁹. American industry is perfectly structured for export markets and the ubiquitous presence of the United States Administration which has set up support structures for the defence industry approximating to a true industrial policy, undoubtedly provides unparalleled backing when compared to what is available in the old continent.

100. Thus American industrial concentration is creating large-size, relatively specialised firms, which European companies are attempting to deal with in scattered order and in fragmented national markets. In the United States, the missile and satellite sectors³⁰ – and this is also true of other business sectors – are now dominated by groups with access to a large internal market, two or three times the size of those of the main European manufacturers.

101. Moreover, the lower dollar means loss of competitiveness for European firms, with the added risk of exchange losses. Moreover, the currencies of two of the three countries with the strongest defence industries in Europe, the franc and the mark, are overvalued. Consequently some Europeans have recently sounded the alarm repeatedly³¹. The Chairman of Daimler Benz Aerospace recently referred to the possibility of decentralising part of its production, while the Chairmen of Aérospatiale and Snecma for their part stressed the risks this situation held for their industries. Given the circumstances, European preference might serve as a parry and at least preserve the European market.

26. See Air et Cosmos, 2nd June 1995, page 5.

27. Alain Crémieux "Le face à face Europe-États-Unis dans les armements", Défense Nationale, March 1995.

28. See Air et Cosmos, 17th March 1995.

29. Jacques Battistella, Deputy Director for industrial policy, Aérospatiale. L'armement, No. 43, July-August 1994.

30. "Confrontation aérospatiale Europe-USA", Air et Cosmos, 10th March 1995.

31. Le Monde, 20th April 1995.

102. This review shows that the American defence industry is healthy, despite major contraction of its national market owing to the considerable reduction in spending on new equipment procurement in a defence budget that is rapidly shrinking. The groups that are being formed in the United States are flexible, directed towards military requirements and henceforth bent on export³².

103. Alliances do exist in Europe: in missiles (Aérospatiale-Dasa and Matra-BAe partnerships), helicopters (Eurocopter), satellites (Aérospatiale-Dasa along with Matra-Marconi, taking over BAe's satellite branch). The scale of these regroupings is however limited in comparison with United States competitors and still leaves room for overlapping and margins of competition. Moreover, increasingly today dealings are with joint-ventures – one difficulty of which being the division of work between different national firms – rather than true mergers.

Industrial restructuring

104. Contracting markets, national and external, affected the principal armaments industries in the 1980s, compelling them to adapt to this new context. Profound changes are still necessary to regroup capacity and give national firms in Europe the financial structures they need. A move towards restructuring in the defence industry has started. There is a wave of concentrations within national boundaries in parallel with cross-border projects³³. Firms must now include in their strategies the need to seek foreign partners to share research and development costs and markets in a framework of co-operation. Aérospatiale, which derives 70% of its turnover from international co-operation (in particular with Dasa), is a telling example of this present trend. However, although convergence in the area of missiles has been mooted for over two years between Matra and British Aerospace on the one hand and Dasa and Aérospatiale on the other, in neither case has this yet been brought to completion.

105. Already under way in Europe, restructuring is far from complete. State finance is allocated with ever-greater reluctance. The critical size is proving an increasingly essential requirement for coping with American competition.

106. In France, decisions in this connection are to be taken next spring on the basis of the work of the Strategy Committee set up at the Ministry of Defence. The public sector of France's defence industry is in an advanced state of financial decay,

its own resources being very often on the verge of bankruptcy. The state has to find some thirty to forty billion francs to bring these companies up to scratch. Moreover, France has three missile manufacturers (Matra, Aérospatiale and Thomson), two satellite manufacturers (Matra and Aérospatiale), two aircraft companies (Dassault and Aérospatiale), two radar manufacturers, etc.

107. On the other hand, France's European partners have long been regrouping. In the United Kingdom, this process has been around two poles, GEC and British Aerospace. In Germany, Daimler Benz Aerospace has absorbed virtually all the aeronautics industries. In this context, France is going its own way in terms of restructuring, a situation which is bound to change under the pressure of budget restrictions and American competition.

Fragmented capability

108. Over the last twenty years, the development of the defence industry in Europe was the result of national policies, each country seeking to reduce imports and to find export outlets. The current fragmentation of the armaments industry in Europe stems largely from these policies. Like the United States, the "big" European nations each have an industrial tool capable of developing the modern weapons they need for their defence and technological and research capabilities such as test facilities and centres, which exist throughout the sector on the territory of the European Union. However, these capabilities are widely dispersed, making them vulnerable. There is obvious superfluity and massive duplication³⁴.

Weakening of the defence industry and technology base in Europe

109. There will be no European defence industry without a lastingly efficient, high-performance, competitive defence industry and technology base. Identifying that DITB means diagnosing the present state of health of the armament industries in Europe which is very worrying. Indeed, there is a structural weakening under the combined effect of certain factors and developments which include a shrinking and fragmentation of demand – each national army wants a type of equipment which meets certain specifications – and fragmentation of supply – with the fragmented industrial operators having difficulty in reaching the critical size.

110. Apart from this shrinkage, a loss of competitiveness in exports is observable. Exports outside the Community³⁵, however, account for only

32. Jean-Paul Hébert, *Libération*, 6th September 1994.

33. Thus, for example, GEC and Daimler-Benz acquired holdings in Matra; Siemens and GEC divided Plessey's defence business between them; Thomson and Giat acquired holdings in various European countries.

34. Henri Conze, former Armaments Director of France.

35. Exports outside the Community represent approximately 5% of turnover of the defence industries in WEAG countries.

20% of the turnover of European defence industries and this figure is tending to fall, in particular due to compression of the markets and increasingly aggressive competition. Thus, the armaments industry is dependent on its internal, practically exclusively national market. The future of this industry lies rather in the internal European market than in national and export markets. Finally the rate of procurement, mergers and restructuring is much slower in Europe than in the United States.

111. It can easily be deduced from all of these factors taken together that a cumulative process of structural weakening of the European DITB is in progress. This process is not compatible with the affirmation of a European defence identity and hence with the objectives of the Maastricht Treaty; in point of fact, if this trend is confirmed, there is the risk of it leading to a form of subordination of Europe's defence industries to American groups and, in certain specialities, to Japanese industry. Assuming some form of sub-contracting by the American defence industry to European industries, two disadvantages immediately become obvious: a lack of choice in terms of equipment and in prices.

112. It is difficult to evaluate the DITB correctly in the absence of systematic, harmonised data. A working group of European Commission Directorate-General IA has recently worked on drafting a report on the defence industry, science and technology base in Europe. This report puts forward the idea of a European observatory of the defence industry, science and technology base for Europe, responsible for bringing together standard information at European level.

(c) Disparities between countries

Disparities of scale and objectives

113. Defence industries still differ a great deal from one WEAG country to another. The most obvious structural changes to the defence industry have mainly affected firms in France, Germany, Italy and the United Kingdom. Despite the growing trend towards international co-operation observed in recent years, defence industries still bear a strong national imprint. They may be divided into five major categories of country³⁶:

- Countries with nearly comprehensive, largely autonomous defence capabilities: this is the case for Britain and France, which continue to make high commitment of resources to defence research and development. These two countries

produce almost 60% of the military equipment manufactured in Europe.

- Countries with large but incomplete defence manufacturing capabilities. These countries' former high dependence on imports of American technology and military materials is tending to diminish. Germany, and Italy to a lesser extent, belong to this category. Spain³⁷ aspires to join it, having adopted a strategy of co-operation some considerable time ago in order to achieve a firm technology base³⁸.
- Countries with sophisticated but highly specialised defence industries. Belgium, Denmark and the Netherlands may be classed in this group. Outside their areas of specialisation, these countries have operated relatively open markets and tend to purchase more from the American industry than from European firms.
- Countries with weak industrial infrastructures. Greece, Portugal and Turkey fall into this category. These countries have tried to gain greater independence by acquiring their own defence capabilities. They nevertheless remain highly dependent on foreign technology especially American technology. Small countries and those whose infrastructure is weak are doubly penalised by their smaller internal markets and by obstacles to trade with larger countries.

The hard core of Europe's defence industry: France, Germany and the United Kingdom

114. Any regrouping of the activities of the armaments industry in Europe can be achieved only with the involvement of a number of industrial players strongly established in the three most important countries in this area: France, Germany and the United Kingdom. This does not however rule out a contribution from the Belgian, Italian, Netherlands, Spanish and indeed Swedish industries to a possible regrouping of defence industries in Europe; it means simply that the weight of the French, German and United Kingdom industries is such that nothing can be done without their participation. A brief description of the industrial situation in these three countries shows the major trends in each one.

The defence industry in France

37. See F. García and I. L'Ebrellec "L'industrie de défense en Espagne" (Spain's defence industry), *L'Armement*, No. 35, December 1992.

38. See J. Mollas-Gallart, Spanish participation in the international development and production of RMS systems, *Defence Analysis*, Vol. 6, 1990.

36. See the relevant passages in "Nationalism, internationalism and the European defence market", William Walker and Philip Gummet, *Chaillot Papers* No. 9, September 1993.

Procurement policy

115. France has always sought the widest autonomy in armaments procurement, which explains the importance of the industrial component in French defence policy. The end of the cold war made it necessary to redefine military missions and make a marked reduction in defence appropriations. Thus the crisis affecting firms in the defence sector forced political and industrial leaders to reshape the industry.

116. The French Government has always developed its procurement policy for military equipment by following a basic principle, not shared by its neighbours: the design and production of armaments systems must be carried out on French soil in order to avoid the undesirable effects of discriminatory measures from abroad. However, this search for independence in weapons design and production is incompatible with participation in a large number of co-operative ventures, especially in Europe, or indeed with the purchase of certain specific equipment abroad.

117. The existence of a vast nationalised or state-controlled armaments industry, the wish to avoid any risk of dependency on other countries and the concern to exercise very tight control over exports of military equipment have led the French authorities to develop an industrial policy which provides a framework for the French defence industry. Here again a difference is observable compared with German and United Kingdom thinking.

General characteristics of the French defence industry

118. In quantitative terms it accounts for only 5% of world production and 30% of that of the European Union, which is half that of the United States. However in qualitative terms its world rank is just behind the United States and Russia for its broad range of equipment and its performance.

119. As in many other countries, France's armaments trade has the dual characteristic of being concentrated in a small number of large industrial groups (13 firms³⁹ achieve almost 83% of global non-consolidated turnover) and spread over a large number of firms forming part of the defence industry⁴⁰.

120. The French defence industry is now characterised by particularly high technology. The defence budget accounts for approximately 15%

39. Aérospatiale, Alcatel, CEA, Dassault Aviation, Dassault Electronique, DCN, Eurocopter France, Giat Industries, Matra Défense Espace, Sagem, Sextant Avionique, Snecma, Thomson CSF.

40. Approximately 5 000 firms are involved in business that is partly military.

of national expenditure on research and development. Defence industry-related firms are an essential factor in the level of technological and industrial development in France. The share of armaments research and development in the turnover of firms is currently 20% while the average share devoted to industrial activity as a whole is 3%. It has been possible to mobilise this technological potential in the civilian sector where it has made a powerful contribution to bringing high performance products to market, especially in the aeronautics and space sectors⁴¹. However, the technological fallout is concentrated in a few sectors only.

121. The activity of defence-related industries is generally directed towards civilian applications, with the two, civilian and military, cross-fertilising one another⁴². Finally, the French defence industry is quite strongly committed to exports even though the fall in the latter is exacerbating the difficulties encountered by defence-related firms. According to the assessment of France's Direction Générale de l'Armement (DGA) (national procurements office) France's arms sales abroad in fact plunged by 18-20% in 1994, as compared with previous years⁴³. The DGA does not expect an upward trend before 1996. Government directives quite regularly promote exports to spread development costs across a wider base and generate a level of activity across the industrial fabric able to absorb the exchange rate fluctuations to which domestic orders alone would give rise.

122. Finally the French defence industry is deeply involved in co-operation programmes, particularly with its European partners, especially Germany. This European trend has been encouraged for several years by the state. The Minister of Defence, who supports greater European co-operation, has in fact requested the French defence industry to "restructure itself on a European" scale through French-French and French-European rapprochement. It is necessary for companies to be large enough to support increasingly costly programmes.

123. Despite its performance, the French defence industry is nonetheless undergoing a serious crisis due to shrinking markets and tougher competition. Turnover in constant francs (GDP) has fallen sharply in volume terms by 23% between 1984

41. See "L'avenir des industries liées à la défense", Commissariat Général du Plan, Industrial Strategy Group chaired by Marcel Bénichou, La Documentation Française, November 1993.

42. J.P. Gillyboeuf, Director of the Central Industrial Affairs Department at the French Direction Nationale de l'Armement, "L'évolution du paysage industriel français de l'armement" in Défense Nationale, March 1995.

43. The volume of export orders reached its lowest level since 1990. See Le Monde, 6th October 1990.

and 1993. The number of direct defence-related jobs plunged by 27% between 1984 and 1993, from 291 000 to approximately 214 000. The export share of that turnover has fallen almost continuously from 42% in 1984 to 20% in 1993, which in part explains the industry's present difficulties. According to the Chairman of the National Defence Committee, Mr. Jacques Boyon, the defence budget submitted recently "does not take the needs of the defence industry into account". Bearing in mind the savage cuts in equipment funding, the industry is experiencing the effects of programmes being staggered⁴⁴. The "shrinkage of the fabric of France's defence industry seems inevitable and perhaps irreversible"⁴⁵.

124. The strategic committee established by Defence Minister, Charles Millon, should, among its other tasks, settle the problem of the need for own funding of government-supervised firms: Aérospatiale, Snecma and Giat Industries⁴⁶, and the matter of their possible privatisation (in the short term that of Thomson). Public sector industrial groups working for the defence industry and encountering difficulties in adapting to a globally declining market are stating their need for an injection of F 15 to 20 million. The gap between the needs of firms and the sums available is considerable⁴⁷. Charles Millon has said that he will oppose the recapitalisation of armaments firms without a medium- and long-term target plan. "Recapitalisation should not be a financial transfusion... but one counter in a true industrial strategy"⁴⁸. Moreover, inflation of the cost of military programmes coupled with a tightening of budget restrictions will sooner or later make necessary a review of the doctrine⁴⁹ that "off the shelf" purchases of equipment cannot be entertained. (This expression means all equipment available on the market). The armaments Director General, Mr. Henri Conze, threatened last January to abandon certain programmes if the defence industries refused to lower their prices by 2% per annum between 1995 and 1998. Finally two other sensitive projects, arsenals and satellites (discussed later) are to be dealt with shortly.

The United Kingdom defence industry

44. The most expensive programmes are those worst affected. The Rafale is one that has been staggered this year, as in previous years.

45. Air et Cosmos, No. 1525, 30th June 1995.

46. Giat, which inherited the state arsenals of land-based weapons and is the manufacturer of the Leclerc tank, has continuously made losses since 1992.

47. Aérospatiale estimates its own capital funding requirement to be F 10 billion, as does the Thomson group. The Snecma engine group, which according to its own President and Director-General is "virtually bankrupt", has evaluated its requirement at F 6 billion. Source: Les Echos, 22nd September 1995.

48. Interview with the Minister of Defence for France, Mr. Charles Millon, in the Tribune Desfossés, 3rd October 1995.

49. See Le Nouvel Economiste, 7th April 1994.

125. Like France and Germany, the United Kingdom has a long tradition of national manufacture of high performance weapons by a powerful and efficient industry. The United Kingdom combines a wish to maintain close links with the United States with steadfast efforts to maintain wide independence in the design and manufacture of its weapon systems. This policy required the establishment of a national defence industry which has remained competitive despite the economic difficulties experienced by the United Kingdom for many years.

Procurement policy

126. The principle on which United Kingdom procurement policy is based is that of "improved value for money". The United Kingdom Government uses the process of competitive tender as widely as possible, most often with British firms, but also with foreign suppliers in order to obtain for a given budget the best possible equipment in terms of performance and running costs. The government is not opposed to international co-operation with American or European partners, provided it is in the United Kingdom's interest.

127. The Minister of Defence has furthermore envisaged developing co-operation in research in Europe. A programme known as "Beacon" and intended to promote increased collaboration between the governments and industries of European countries is to be launched before the end of 1995. In a lecture by Peter Ewins, chief scientist, on 5th July 1995, to representatives of the United Kingdom industry, the idea was explored of defining a European armaments procurement strategy which favoured upstream agreements on future armaments technologies. Indeed, the Ministry of Defence recognised that the United Kingdom no longer had the capability to develop armaments of increasing complexity alone. Peter Ewins furthermore proposed that the industry should work with the Ministry for defining future technologies and areas (dual-use) in which a specific search for synergies with the civilian side would help to reduce the time required for developing future armaments.

128. After his talks in February 1995 with France's Armaments Director, Mr. Conze, and the then Defence Minister, Mr. Léotard, Mr. Freeman, repeatedly in contact with France and Germany, reaffirmed the United Kingdom's intention to take a close interest in various European programmes, such as the future large aircraft (FLA) programme in which the United Kingdom has decided to participate in the near future, provided a number of conditions are met, inter alia, an Airbus-type industrial organisation, light armoured vehicles in conjunction with the Franco-German modular armoured vehicle programme, military communi

cation satellites, and long-range air-to-air missiles for the Eurofighter aircraft.

129. However, budget forecasts, largely based on off-the-shelf procurement, do not favour European co-operation. Moreover, the United Kingdom decision in 1995 to choose the American Apache combat helicopter rather than the Franco-German Tiger is a reminder that the main criteria for the choice of armaments are still different on either side of the Channel: over and above the best value for money criteria on the one hand and European construction on the other, one side gives priority to technical and operational links with the United States and the other the prospect of a wholly self-sufficient European armaments organisation⁵⁰.

130. Finally, the government actively supports armaments exports. However, its thinking on industrial policy is characterised by the very liberal direction given it by the former Prime Minister, Mrs. Thatcher, and is thus very different to that of the French Government. In the 1980s, the then government privatised many public sector firms, Royal Ordnance Factories and the state-owned naval dockyards.

General characteristics of the United Kingdom defence industry

131. All defence-related firms are now owned by private capital and the capital structure is more fragmented than in France. Moreover, large companies are generally less dependent on military orders than their French neighbours. Comparable in size and expertise to the French defence industry, the United Kingdom industry is present in most armaments sectors including the nuclear industry. This is also true of project managers for major weapons systems, parts manufacturers and principal collaborators. BAe, the first defence-related industrial group in the United Kingdom, has extended its activity to all armaments sectors and GEC, the second, is extending its core business, electronics, to naval construction.

132. Thanks to the growth (16%) in military sales, and to restructuring – which has led to 47% job losses after three loss-making years, BAe has again moved into profit (over F 1.7 billion⁵¹). Restructuring measures, particularly the elimination of under-performing businesses) and a reduction in production costs, together with staff cut-backs, have brought about the recovery, according to Richard (Dick) Evans, Chairman and Managing Director of BAe. Indeed it has essentially been military activity (aircraft and missiles) that has boosted the 1994 turnover for the United

Kingdom defence industry, all the more remarkable in the present context.

The German defence industry

Procurement policy

133. The principle on which German procurement policy is based is to safeguard, wherever possible, the interests of the national industry. The German Government however does not rule out any form of co-operation, whether based on partnership with European countries or with the United States. The rising power of the German defence industry is at present leading the German authorities to direct German policy towards national choices or co-operative projects such as the HAC/HAP/UHU helicopter (or Tiger) with France; the NH-90 helicopter, with France, Italy and the Netherlands; the AC-3G third generation anti-tank missile or Trigat, with France and the United Kingdom, and also Belgium and the Netherlands for the medium-range version; the Eurofighter 2000 and its EJ-200 engine with the United Kingdom, Spain and Italy.

134. In theory, the typically French concept of industrial policy is not part of the liberal vision of the German economy. A true political will has, however, encouraged massive regrouping of defence-related firms and promoted the importance of the confidential armament-industry circle, which periodically brings together relevant officials from the German Ministry of Defence and the chairmen of the major German armaments firms.

135. Regarding exports, although the regulations applied in the matter are restrictive in principle, they are circumvented on occasion: indeed certain industries manage to evade the controls, others export dual-use goods and technologies. Since reunification, Germany gives less and less the impression of being a country anxious not to be regarded as an arms exporter, especially since the German Government recently decided to relax export regulations.

General characteristics of the German defence industry

136. Like France and the United Kingdom, Germany has for some time been acquiring independent means of producing the equipment required for its armed forces. Following the dismantling of its armaments industry after 1945, West Germany remained dependent on other countries, particularly the United States, for its military procurement. During the cold war, its armaments procurement policy was based on “off-the-shelf” purchasing or manufacture under licence. Despite these limitations, the German armaments industry was nevertheless able to develop co-operation with allied countries, in particular the United

50. ICA Barthélemy, United Kingdom armaments attaché, Bulletin d'Information du Service de l'Attaché d'armement, September 1995.

51. See Air et Cosmos, International Aviation, No. 1509, 10th March 1995.

States, France and the United Kingdom. After reunification of the country in 1990, Germany strengthened the movement to restructure its armaments industry thus restoring its power and efficiency. Defence industry activities were entrusted to various groups directed towards civilian applications.

137. The German defence industry was structured around large national firms with a solid financial base, partly because they frequently had the backing of powerful, diversified industrial groups.

138. The German defence industry is concentrated around a few large groups where the "armaments" side is at times a subsidiary activity: Daimler-Benz Aerospace (Dasa) in aeronautics; Diehl, Krauss-Maffei and Rheinmetall in weapons for ground forces; Siemens in electronics; Bremer Vulkan in naval construction. These firms are largely controlled by private capital held by groups or large financial or banking institutions. None of these groups concentrates exclusively on armaments production. Defence is a subsidiary, indeed a marginal, business interest in the civilian groups; only the firms in the sector concerned with armaments for ground forces achieve approximately half of their turnover through defence activities. It is to be expected that this figure will fall in the years to come.

139. This industry employs approximately 140 000 people and achieves an annual turnover estimated at around DM 15 billion (F 51 billion) and exports roughly 15-20% of turnover.

140. Until now, German defence-related industries had coped more easily with considerable reductions in defence funding than have French industries. Conversely, its financial soundness was at the expense of a loss of specialisation. The financial situation of the German defence industry has nevertheless worsened in recent months.

141. Moreover, firms whose activities have long been geared to the defence industry are tending to consolidate their business in dual-use technologies and goods. Furthermore, Germany gives priority to technological sectors based on prime areas. Companies such as Dasa or Siemens hope to be able, as the German defence white paper advocates, to develop their activities in high technology sectors where they are already competitive and where there are numerous ties between civilian and military technologies⁵². Seriously affected by the fall in military orders, Dasa has redirected its activities towards the civilian sector which it is seeking to develop.

52. See the 1994 white paper, Federal Defence Ministry, 5th April 1994, page 106.

142. The German armaments industry has been experiencing serious difficulties since 1994. It has compensated, but only partly, for the loss of earnings resulting from the drastic reductions in Defence Ministry procurement by substantially increasing its exports.

143. In 1955, the leading German industrial group, largely controlled by Dasa and Fokker, in 1995 registered its heaviest losses in the firm's history. This situation reflects the difficulties of its subsidiary Dasa, which alone made operating losses of DM 1.6 billion as a result of exchange losses and restructuring costs. One of Dasa's main problems is that 74% of its production is achieved in marks and only 27% of sales are in dollars. The result for the second half year will be determined by the evolution of the exchange rate scenario and above all by the provision necessary for the Dolores programme⁵³, which concerns the Dasa⁵⁴ networks, Juergen Schremp, Chairman of the Daimler Board, said recently. According to the German press, some 15 000 jobs might be lost at Dasa between now and 1998.

144. The leaders of the eight Länder involved in the aeronautics and aerospace⁵⁵ industries sent a message to the Federal Government last September asking it to increase his political, financial and legal support and ensure that current programmes went ahead. Manfred Bischoff, Chairman of Daimler-Benz Aerospace, insisted on the need to retain jobs in what Germany regards as a strategic sector⁵⁶.

145. This show of force by the German aerospace industry in demanding increased government support for the industry was a new departure in its relations with the state which has no parallel in France and the United Kingdom. It made clear that the industry was threatened, as elsewhere in Europe, by the combined effect of lower defence appropriations and fewer civilian and military orders, the whole being magnified by the "dollar effect"⁵⁷.

146. The Bonn Government is refusing to grant additional public funds until drastic cost-cutting measures have been implemented. In broader terms, the Länder are asking the government also to intervene at European level to obtain additional subsidies and the creation of structures to enable the industry better to meet competition, especially from the United States.

53. The Dolores working group aims to reduce Dasa's dependence in relation to the dollar.

54. See *Le Monde*, 13th September 1995.

55. In September 1995, Wolfgang Piller, President of the German Association of Aerospace industries (BDLI) stated that in five years the German industry had lost 40% of turnover and employment.

56. See *Le Monde*, 27th September 1995.

57. See *Air et Cosmos/International Aviation*, No. 1533, 29th September 1995.

Two second-line players: Italy and Spain

147. In *Italy*, defence industry turnover has regularly declined since 1993. The Finmeccanica group rescued the armaments companies of the Efim group in February 1994. This in fact constitutes the first Italian defence conglomerate accounting for 65 to 70% of national capacity in this sector. Research and development is considered to be a particularly strategic area for the group as a whole, on which its Chairman has decided to spend 10.5% of the holding company's income. The armaments activities of the holding company relate to ground equipment, missiles, electronics, space and telecommunications. They were rationalised through reductions in staff, the search for European partnerships and changes in financial structures, but without, however, any new outlets emerging either in terms of domestic or export orders.

148. It should be noted however that the Paris airshow last June provided an opportunity for the Italian industry to present itself for the first time in its grouped form, after firms had restructured, in advance of other European countries. In particular, the Finmeccanica group⁵⁸, which today accounts for 70% of the productive and market capacity of the aerospace sector, presented its three aerospace companies under one flag. Conversely, the renewal of the armoured vehicle fleet is continuing, crippled by spiralling costs and with highly uncertain prospects for the armaments industry. With doubt already hanging over the Ariete, whose cost will be far greater than any advantages it may offer and which will therefore have no real export outlets, it already seems certain that Italy will not produce a single tank. If the ground-based construction sector survives in Finmeccanica, it seems likely that it will look for partnerships, hence Italy's interest in Franco-German co-operation of the modular armoured vehicle type.

149. Although a movement towards concentration and rationalisation has begun in Italy, particularly in the area of defence electronics, production remains very fragmented. The Italian defence industry is pursuing three objectives which it is having difficulty in achieving: rationalisation, technological development and internationalisation. Italian equipment will no longer be competitive except in certain specific markets and the entire sector seems to be at the limit of survival⁵⁹. Programmes such as the Eurofighter 2000, the EH-101 and NH-90 helicopters, the future large aircraft and the FSAF are all more or less behind

58. Finmeccanica's turnover stood at 12 117 billion lira for 1994. The aerospace and defence sectors account for 32 and 17% of group revenue (respectively).

59. See Lettre d'informations stratégiques TTU, No. 106, 7th September 1995.

schedule. Moreover pressure from American firms on Italian decision-makers in equipment matters is becoming increasingly insistent.

150. The *Spanish* armaments industry is at the same time concentrated and scattered. Indeed, on the one hand there are few large groups and project-leaders are virtually in a monopoly position, on the other there are numerous small- and medium-size businesses in the sector. The Spanish defence industry is largely state-owned. For some years now, the modernisation of industrial structures seems to have been a priority in order to increase productivity. A movement towards concentration has been set in motion to improve the productivity of the public holding company, the INI (National Industry Institute) which has a virtual monopoly of naval construction, heavy artillery and electronics. This industry's turnover is approximately one fifth of that of the French defence industry.

151. According to the association of Spanish defence industries, AFARMADE (Asociación de Fabricantes de Armamento y Material de Defensa de España), four firms account for 75% of Spain's armaments production and 80% of employment in the sector: Casa (aircraft), Bazan (naval construction), Santa-Barbara (weapons for ground forces) and Indra Sistemas (electronics). The aerospace, electronics and naval sectors account for over 90% of the Spanish defence industry production and each sector is dominated by one or two firms. As each firm specialises in a product or a group of products, there is effectively no competition between the various Spanish companies working on defence.

152. The aerospace business is concentrated in Casa. The group is developing a number of programmes, among which the CN-235 transport aircraft with a relatively high potential for penetrating foreign markets. Casa is also participating in the Eurofighter programme. This competitive group exports almost 75% of its production. In spite of the unfavourable economic circumstances of the civilian and military aeronautics industry, the Spanish manufacturing company ended the 1994 financial year with a net profit of F 140 million⁶⁰, which confirms the recovery heralded in 1993. The sector of weapons for ground forces is, however, experiencing a serious crisis due to overmanning, a fall in domestic demand and low productivity. Santa-Barbara began a major adaptation programme in recent years, but structural problems persist.

153. In the view of Mr. Prieto Viñuela, the international situation is not entirely sufficient justification for the crisis in the Spanish defence industry. The structural reasons for the crisis in the

60. Figure taken from Les Echos, 15th June 1995, page 15.

armaments industry are manifold, among them the fall in internal demand (the Defence Ministry's procurement budget has fallen from F 8.4 to 2.1 billion) very limited investment resources, few staff with high technology expertise, a weak production infrastructure, low productivity of both industrial plant and personnel, a low level of competitiveness and, according to the opposition, lack of consistency in the military planning law.

154. According to the Popular Party, the main opposition party, the following conclusions⁶¹ have to be drawn: the structure of Spain's industry does not allow the consolidation of markets and of the Spanish defence technology base. It will therefore be necessary to increase investment and strengthen the national technological infrastructure. The Popular Party has moreover proposed a plan consisting of privatisation-based measures to rescue the defence industry⁶². This would concern Casa, Santa-Barbara's armoured vehicle business and Bazan's weapons production. The party is proposing to revise planning by introducing greater transparency in the award of contracts to firms in the industry and encouraging European co-operation.

(d) European co-operation in armaments

155. Economic and industrial necessities and the European Union's plan to develop a common security policy and therefore a credible European defence require Europeans to broaden, even generalise, co-operation in armaments matters in forms that are likely to reduce the obstacles and difficulties encountered to date.

(i) Co-operation in armaments research and technology

156. Over the years, experience has shown that without similar technological bases, armaments co-operation could no longer be achieved naturally. France, Germany and the United Kingdom, which alone finance over 80% of European defence research, cannot compete with the United States in all areas, given that their spending levels are three times lower. It is therefore necessary for Europe to develop upstream co-operation in order to avoid duplication and offer a forward-looking vision of the industrial landscape for future co-operation.

157. In recent years it has become evident that bi- and tri-lateral co-operation among Europeans has increased. A case in point is the Anglo-French memorandum of understanding on military

research signed in 1989. According to Mr. Peter Edwins⁶³, agreements of this type have increased considerably both in number and in value (17 agreements in force in 1994).

158. The fact that research programmes inevitably last several years is one of the brakes on jointly financed programmes involving a division of work; joint planning of armaments needs and programmes in Europe is still at an early stage. Moreover, account must be taken of the real risk of a programme such as Euclid competing with bi- and trilateral co-operation.

159. According to Mr. Benichou⁶⁴, although it has not for the moment led to a significant degree of interdependence, the trend seems to have become well-established. However, programmes carried out in the framework of these types of co-operation mainly concern exploratory developments and do not take sufficient account of the exploratory analysis of "the best industrial arrangements" and interministerial agreements leading potentially to joint production and development.

(ii) Essential co-operation on programmes

160. In 1994, a French white paper on defence stated that it seemed co-operation was bound to apply to future major conventional armaments programmes, while the German Government stated clearly in its 1994 white paper that armaments co-operation should be increased at European level within the framework of WEAG.

Advantages and disadvantages of traditional forms of co-operation

161. "Arranged marriages" are still the most common form of co-operation in Europe, particularly for manufacturing major sophisticated systems. At the political and economic level, co-operation, described by W. Walker and P. Gummet⁶⁵ as "an arranged combination of productive resources", in theory enables costs and risks to be shared between the partners and a reduction in duplication of skills and test and production facilities. At operational level, the use of the same equipment by several headquarters staffs increases interoperability with considerable financial advantages.

162. Nevertheless there are several disadvantages. For example the definition of common requirements often leads to the production of more sophisticated, and hence more expensive, equipment than is strictly necessary. Application

61. La industria de defensa en España de J.J. Prieto Viñuela, Fundación para los Estudios Sociales Papeles de la Fundación, No. 22.

62. Information obtained from TTU No. 66, 19th October 1994.

63. Deputy Chief Scientific Adviser, United Kingdom Ministry of Defence.

64. Revue Défense, No. 64, June 1994.

65. Nationalism, Internationalism and the European Defence Market, Chailot Papers, ISS, WEU, September 1993.

of the fair return concept has created an artificial balance in work sharing, leading to the maintenance, and indeed the creation, of surplus production potential. The difficulties encountered after renegotiation of the ACE project in 1992 bear witness to the extent of the problems to which this principle can give rise. EDIG is now proposing to substitute this non-economic principle, which is a barrier to competitiveness, with that of economic return.

163. In short, co-operation is, on balance, considered to have been generally successful by a majority of senior figures in politics and industry. Despite certain "model" structures (for example Euromissile) many consider the present model of co-operative production, owing its structure to a specific historical context that has conferred upon it a function that is primarily diplomatic, to be outmoded. In 1989, the Armaments Delegate, Yves Sillard, expressed a point of view on co-operation that served as a warning by underlining that the advantages of the latter were often heavily outweighed by extended deadlines, lengthy negotiations and financial costs.

Evolution of industrial co-operation

164. Emile Blanc stresses that co-operation will prove to have been one stage in the development of industrial structures but certainly not the last, falling as it does between the concentration of integrated companies and the creation of new ones. Alliances will be determined increasingly by the industrial, "capitalist" approach of cost saving and the acquisition of market shares. One might share John Wistory's⁶⁶ view that the major change at present taking place in the industrial environment is the formation of European transnational companies. However, although there is more dialogue between leading top management in industry, this does not necessarily imply a merging of strategies. Thus, for example, British Aerospace and Dassault have held discussions on aircraft projects, while BAe and Thomson CSF failed to merge their divisions (Eurodynamics); GEC-Marconi and Aérospatiale have, however, reached agreement on missiles. This situation implies that there are flexible and changing alliances and that stable alliances between companies are unlikely in the short term. Many firms have acquired the habit of collaborating at division level and sought to formalise their relations by referring to themselves as "Eurocompanies". Although dependent on their parent company, they are beginning to act as separate industrial entities (Eurocopter, Matra Marconi Espace, etc.).

66. Chairman and General Manager of British Aerospace Defence Ltd.

Some major co-operation programmes

165. Many endeavours have reached completion or are in progress. Joint development and production programmes can be counted in dozens and cover a variety of fields. Although the list is not exhaustive, the examples given below might be mentioned.

166. In the naval field, obvious examples are the tripartite mine-hunter, the MU90 torpedo and the new generation Anglo-French-Italian Horizon frigate. To avoid accumulating programme teams and national variants as in the past, the Horizon programme marks the introduction of a new organisation closely modelled on the Airbus consortium. A single framework agreement, signed in July 1994, gives the go-ahead for the development, construction and in-service monitoring of a single class of frigate. The Joint Project Office (JPO) in London is responsible for programme management and will award contracts to one industrial lead contractor, the IJVC⁶⁷. The abolition of rules on the detailed and pre-established distribution of work is another innovation which, as Mr. H. Guillou, Director of the JPO, emphasises, encourages competition between firms and "marriages" between the most competitive divisions of each company.

167. In terms of land-based equipment mention may be made of the multiple launch vehicle (MLV), the Cobra radar system, and for the future, the modular armoured vehicle (MAV).

168. In the field of military observation satellites, obstacles of a financial and diplomatic nature connected with domestic policy are preventing a partnership between France and Germany from being finalised⁶⁸, especially as Germany seems very interested in technological progress in the United States. It is still in fact hesitating between the Helios 2 and Osiris 4 programmes, conducted jointly with France, and the project submitted by the American Lockheed company. If Bonn were ultimately to favour the European solution, Spain and Italy, having withdrawn from Helios 2, might rejoin the project⁶⁹.

169. The Franco-German satellite partnership must have a corollary within the satellite industry. Aérospatiale and Dasa have for some time been preparing for closer links on an equal footing, based on the principle of co-decision but with headquarters in Germany and a joint management board led by a German Chairman. This joint venture, known as the "European Satellite Industry (ESI)" will be the leading satellite company in Europe and give fresh impetus to co-operation, in

67. Consisting of DCN International (France), Finmeccanica (Italy) and GEC Marconi Naval System (United Kingdom).

68. Les Echos, 16th October 1995.

69. Defense News, 25th September - 1st October 1995.

as much as it transcends a mere economic interest grouping or joint programmes, such as the Tiger helicopter. As the lead contractor for Helios 2, the French company, Matra, has recently publicly proposed taking over from Aérospatiale and acquiring its satellite branch in the process, in order to join forces with Dasa. The French authorities would, however, prefer to create a Franco-German concern in the form of Aérospatiale-Dasa to match the Franco-British Matra-Marconi Space venture (MMS) set up in July 1994. In prospect would be the creation, in the long run, of a single European satellite company, to compete with the American Hughes and Lockheed-Martin companies.

170. In terms of missiles, mention may be made of the Franco-German Hot and Milan anti-tank missiles, the Martel anti-radar missile, the Roland ground-to-air missile. Moreover the expected alliance between Matra Défense Espace and British Aerospace might shortly come into being. The formation of a fifty/fifty joint venture, with subsidiaries in the United Kingdom and France, would lead to the formation of Europe's foremost missile manufacturer in Europe in terms of the extent and diversity of range, taking in virtually all missiles... except nuclear weapons.

171. In the aeronautics field, reference should be made, *inter alia*, to the Atlantic maritime patrol aircraft, the Transall tactical airlift aircraft, the Gazelle, Puma and Lynx helicopters and, more recently, the (Franco-German) Tiger and NH90 helicopters. Last summer, the French and German Governments signed the agreement giving the go-ahead for industrial production⁷⁰ of the combat helicopter, developed by Eurocopter's joint lead contractor (70% Aérospatiale, 30% Dasa).

172. Moreover, Eurocopter is preparing a new rationalisation plan and defending the European NH90 troop transport helicopter, threatened by French budget cuts.

173. The future large aircraft (FLA) which is among WEAG's projects is intended to equip WEU forces which need some 350 transport aircraft. The feasibility study for this aircraft, begun in October 1993, has recently been completed and the industrial arrangements are in place. This programme⁷¹, regarded as vital for the European aeronautics industry, is nevertheless still far from becoming a reality⁷². Under the pressure of bud-

70. In other words the availability of industrial facilities for series production. The two countries are committing F 2.7 billion to launching industrial production. See *Air et Cosmos*, 1526, 7th July 1995.

71. Its industrial promoters are Aérospatiale, BAe, Casa and Alenia. Regarding the FLA, see WEU Assembly Document 1484: Military airlift-prospects for Europe.

72. At best, the first aircraft will be available by the end of 2003. See *L'Usine Nouvelle*, 8th June 1995.

get constraints, France and Italy have raised the possibility of deferring its start⁷³. The industries of the partner countries are awaiting the agreement of their governments to establish a joint industrial structure to replace Euroflag; this is intended as the management structure for the FLA, development of which is planned for 1996 or 1997.

174. Finally, regarding the thorny problem of financing the European fighter aircraft "Eurofighter 2000" (to be built by the United Kingdom, Germany, Italy and Spain), the German Government and Dasa reached a compromise in April 1995. However political problems in Germany are not the only ones which will have to be resolved by the Eurofighter consortium⁷⁴. The partners themselves have differing views on how the work should be divided between them. As threats recede and programme costs soar, the countries, with the exception of the United Kingdom, have revised their needs downwards and accordingly reviewed the division of work.

IV. WEAG

(a) *Aims and operation*

175. The thirteen member countries of the IEPG⁷⁵ are now members of WEAG. With the exception of Denmark (observer), Norway and Turkey (associate members), the other countries are full members of WEU.

176. The objectives of WEAG follow on from those of the IEPG and complement them; they are:

- to strengthen Europe's technological and industrial base in the defence area;
- to ensure the best use of financial resources through better harmonisation of operational requirements;
- to improve co-operation in research and development;
- to open up national defence markets to international competition.

177. The branched structure of WEAG (see Table at Appendix I) involves several levels of activity and various players. The defence ministers of WEAG member countries are the highest level in this structure. The NADs, who are responsible to the ministers, maintain close working relations with the EDIG, European Defence Industries Group, chaired by Mr. Philippe Girard

73. *Defense News*, 6th-12th and 23rd-29th October 1995.

74. See *Financial Times*, 16th October 1995.

75. Belgium, Denmark, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Turkey and the United Kingdom.

(France). Several organisational structures work for the NADs, including three panels and the ad hoc group on the European Armaments Agency. Each panel submits a progress report to the half-yearly meetings of the NADs, who themselves report to the defence ministers. France currently holds the presidency of WEAG, with Mr. Emile Blanc⁷⁶ as Chairman up to 1st January 1997.

178. The armaments secretariat is financed from the WEAG budget. It is working on the operational concept approved by the NADs and its principal function is to assist the WEAG presidency and provide appropriate backing for the WEU Council on armaments matters.

179. Moreover, in its report, the ad hoc group examined the tasks to be assigned and the principles to be applied to the EAA. While recognising that the conditions for the creation of such an agency in the broad sense were not yet present, the NADs nevertheless indicated that it would be possible, in certain sectors, to achieve more effective co-operation through a body with specific legal personality.

180. The half-yearly NADs meetings constitute the operational level of armaments co-operation in the framework of WEAG. The two-year rotating presidency has been retained. Relations with NATO in matters relating to armaments co-operation accord with the principles decided in Petersburg where ministers reaffirmed their conviction that the Atlantic Alliance was one of the essential bases of security in Europe.

181. The WEAG staff group⁷⁷ is a Council of WEU armaments working group. It is composed of the national representatives of the WEAG NADs and is chaired by the country holding the WEAG presidency. It deals with all questions linked to WEAG activities and also prepares meetings of NADs and defence ministers. Lastly, it briefs the Council on the activities of WEAG.

182. Essential to the smooth running of the process of providing the tools for future European armaments integration at political, institutional and industrial levels, consultation between EDIG – which represents twelve countries through their respective associations⁷⁸ – and WEAG enables the industry to be associated to some extent with

thinking⁷⁹ on matters connected with European armaments co-operation.

183. Besides defending the interests of the European armaments industry in WEAG, EDIG is also endeavouring to draw up recommendations to governments and seeking solutions to the difficulties of Western European defence industries.

(b) The work of the panels: preparation of and assistance in decision-making

184. The activities of WEAG follow on from those of the former IEPG panels.

(i) Panel I

185. Panel I's area of responsibility covers the harmonisation of operational requirements and co-operation regarding equipment. Your Rapporteurs are informed that Panel I's tasks are as follows:

- promote equipment programmes with a good cost-effectiveness ratio which will meet the operational needs of WEAG countries while improving European defence industry capacity and competitiveness.
- Panel I meets as often as necessary and no less than twice a year; the NADs are regularly informed of its activities and those of its dependent bodies.
- Under the management of the NADs, Panel I's tasks are as follows:
 - (a) promote the greatest possible harmonisation of the operational needs, programmes and procurement timetables of countries in order to lay down the bases of viable co-operation programmes;
 - (b) develop procedures enabling programmes with a high probability of success to be identified. Such programmes may lead to the creation of sub-groups, referred to later, for developing equipment inside or outside the official WEAG structure, according to decisions taken by the countries concerned;

76. Former Armaments Director-General, former Chairman and Managing Director of the SNPE and former Chairman of Gicat.

77. Source: Western European Armaments Group, WEU document 8439, 13th February 1995.

78. Belgium (BDIG), Denmark (Confederation of Industries), France (CIFEF), Germany (BDI), Greece (Confederation of Industries), Italy (RITAD), Netherlands (NIID), Norway (NHO), Portugal (NID/AIP), Spain (AFARMADE), Turkey (Sasad) and the United Kingdom (Defence Industries Council).

79. See EDIG memorandum to the 1996 IGC "The European defence industry. An agenda item for the 1996 intergovernmental conference". Executive summary, 30th May 1995. This document, which has been agreed by all WEAG industries and circulated to European authorities and to governments, contains recommendations, the most important of which relate to the harmonisation of operational needs, harmonisation of procurement procedures... improvements to structures and terms of co-operation between countries, support for the technological base.

- (c) act as a consultant to countries seeking partners for specific projects. The COCO (Co-operation Opportunity Concertation Office) has recently been created to this end. This service should enable countries with similar interests and timetables to be identified. Panel I also provides an opinion on the most effective structure for new projects and conducts a search throughout WEAG countries when the necessary information is not immediately available;
- (d) undertake an annual study of the equipment requirements, timetables and future procurement programmes of the member countries, drawing up a list of equipment replacement schedules and studying them closely;
- (e) transmit in broad outline to the appropriate authorities information on WEAG projects so that this appears in every issue of NATO ORCAP. The Chairman of WEAG maintains contact with the NCARC;
- (f) undertake further studies or specific tasks at the request of the NADs;
- (g) maintain close relations with Panels II and III in order to benefit from the expertise of both whenever the occasion arises. In particular, as necessary, suggest that Panel I sub-groups use Panel II for any research necessary to their projects and take the results of research undertaken by Panel III into account, in order to improve the prospects of participation of countries with developing defence industries in joint equipment programmes.

186. Working sub-groups may be established as necessary in order to implement specific tasks. These groups are then given a clear brief and a fixed time-limit: the progress of their work and method of operation should be followed very closely.

187. Ten or so specialised groups have been set up to study the different possibilities for co-operation that have been identified, by comparing on an annual basis the equipment replacement schedules drawn up by the different countries.

188. Panel I liaises with EDIG (European Defence Industries Group). Outlines for possible new projects are sent to it each year after the meeting for studying equipment.

189. It is desirable for the panel to maintain close relations with Eurolongterm, Finabel and with NATO's International Secretariat. Concepts

formulated by these bodies are examined regularly and, as necessary, joint discussions are conducted by Panel I.

Method of operation

190. When an opportunity for co-operation arises, a specialist group composed of representatives of the countries concerned is formed to carry out feasibility studies and establish joint operational specifications with a view to the countries involved collaborating in the development and production phases. Panel I is at present involved in seven programmes, including the light attack helicopter, the Stinger and Mistral programmes etc. Specialist sub-groups also exist, some of which are responsible for particular programmes such as the FLA (future large aircraft)⁸⁰ or the NLV⁸¹. Initiatives are currently directed towards improving the relationship between services tasked with defining long-term operational requirements and WEAG. These efforts should help to increase the number of projects under co-operative management.

The equipment review meeting

191. The equipment review meeting (ERM), held each year in June, lies at the heart of Panel I's activity. The process involves a comparison of the equipment replacement schedules (ERS) provided by each of the WEAG nations in order to identify areas of common requirement.

192. Since the information provided by nations is sometimes incomplete or inaccurate, it is not unusual for a number of projects to be considered unviable. Thus it is most important for nations to ensure every effort is made to provide proper representation on the ERM.

193. Moreover it would be useful if the sea, land and air experts from each country were to attend each ERM in order to maximise the chances of success of the projects identified as potentially viable.

194. Once the ERM has identified a project a sub-group is formed, consisting of all the nations which expressed an interest in the project, in order to pursue the matter. The sub-group itself dictates progress made from the time of identifying the project.

195. The sub-groups are invited to submit a written report to Panel I twice a year and the project groups once a year.

196. Insofar as these reports are examined by all WEAG countries, a desirable outcome may be that other countries will apply to join a project.

80. A memorandum of understanding on the FLA feasibility study had been signed in the framework of the IEPG, by the NADs of the six countries involved in this programme: France, Germany, Italy, Portugal, Spain and Turkey.

81. New generation logistical vehicles.

197. Broadly speaking, the members of a sub-group are mainly drawn from the services handling operational requirements and those of a project group from the military equipment procurement staffs.

198. There are today eleven subgroups⁸² and it is planned to create an additional one. Only two have reached the stage of analysing the feasibility study (Stage 9): the FLA and the MLS.

199. In the early stages of a project, different views are expressed by countries on operational needs or specifications and discussions are held on these points. These consultations may slow down the process and make it more complex.

200. The process for dealing with a project within a sub-group is negotiated on a case by case basis. This often involves long and difficult negotiations.

201. The Chairmen of the project groups agree the stages of the project but often encounter difficulties in reaching agreement on certain fundamental aspects of its management, such as the plan structure for a project, the methodology followed in scheduling work and the use of management tools. Consequently much time is lost in explaining the various possible procedures. Conversely, sub-group members reach agreement more easily on the requirements of headquarters, whose procedures are relatively similar in most member countries.

202. Funding practices differ from one country to another; it may prove difficult to plan as far ahead as may be necessary. Certain countries adopt relatively stable plans ten years in advance, while others work on an annual basis and are unable to draw up firm plans or engage in commitments beyond that time span.

203. It is therefore for the Chairman of the sub-group to find a middle road between the different systems in order to satisfy everyone. This inevitably means compromise by most, if not all countries, which sometimes have to refer to their national authorities to obtain agreement on initiatives that do not correspond to their normal, recognised practice.

204. Defence equipment procurement policies vary considerably from one country to another and these differences must be identified in each group as quickly as possible.

205. In particular, financing and approval procedures differ from the point of view of timetable;

82. FLA/future large aircraft; MLS/microwave landing system; AGL/automatic grenade launcher; NLV/new logistics vehicles; SAT/short-range anti-tank weapons; PDW/personal defence weapons; CSS/combat support ship; MIM/mine-sweepers – influence mechanical sweeping; OSV/oversnow vehicles.

very detailed planning is therefore necessary to allow each country the time necessary to implement its own procedures.

206. The progress of sub-groups is measured by the "milestones" reached. Should too little, or no progress at all, be made towards the next milestone, Panel I may decide to disband the sub-group at one of its bi-annual meetings. There is a list of milestones for reference as follows:

- Panel I: initiation of proposal for sub-group to be formed (stemming from discussions on ERS);
- Nominated nations: establish common need between those nations interested and confirm to Panel I that the group will be formed.

207. The sub-group:

- formulates concepts and evaluates mission needs. A mission need document (MND) may be produced. Concept formulation may constitute the initial phase in the life-cycle of a project and generally covers the period from the time the idea to set up a project is conceived to an initial formal decision on user needs. Factors contributing to the emergence of an idea for a project vary but may include:
 - a change in policy requiring new capability;
 - the identification of a new actual or potential requirement;
 - replacement of an obsolescent system or an advance in technology;
 - work being done on an existing project that stimulates the idea for its successor, or some new utilisation, etc... ;
- undertakes the preliminary, prefeasibility study, which may lead to an outline European staff target (OEST). This study establishes the starting point for the project and determines early estimates of time and cost. During concept formulation, close liaison is established between all interested parties. On the basis of their advice, the sponsor decides whether to approve the project moving into the feasibility phase;
- drafts a European staff target (EST) for the outline system specification (OSS);
- obtains the endorsement of the various countries and WEAG for the staff target;
- proceeds to the feasibility study. An outline specification is normally developed during the feasibility study. The outline

specification establishes the baseline for the technical specification and specifies performance requirements. The prime aims of the feasibility study are to establish technical feasibility and provide estimates of cost, duration and impact on incremental revenues and profits. Failure to identify inherent deficiencies in a project concept at this stage can have far-reaching adverse effects in later phases. The output of the feasibility study is a report;

- analyses the feasibility study report;
- drafts the European staff requirement (ESR) leading to definition of the system specification. These needs and specifications are subsequently endorsed by the nations and WEAG;
- engages in project definition (PD) the objectives of which are to:
 - verify scientific and technical approaches identified during concept formulation and feasibility and risks and problems to be overcome in development;
 - analyse performances, cost, time and sales potential and establish a satisfactory balance between these factors;
 - finalise the agreed characteristics of the equipment;
 - develop the specifications and provide realistic estimates of the cost and duration of the development programme and an estimate of the current cost of the equipment in production. Planning the production phase is a key part of the project definition and full development phases. This is essential to ensure a smooth transition from development to production;
 - develop proposals for procurement strategy. Procurement specifications are then studied and defined; (including the establishment of firm prices or any other measure for initiating large-scale development);
- carries out user trials;
- obtains national and international approval;
- defines the aims of the European project office (EPO);
- moves to deployment, at which stage a decision must be made on the continued existence of the sub-group which may be until production is complete. European in-service goals (EISEG) and national disengagement intentions (NADI) are then examined.

208. Sub-groups are required to report, in writing, to Panel I twice each year and project groups once each year.

209. When a project has progressed to the point where the requirement and funding are agreed between the countries concerned the sub-group is then designated as a project group. There are seven projects at present. They have gone beyond the feasibility phase and are in either the development or the production phase. Three projects have reached milestone 17 (production and European production objective): the Stinger, the Mistral and the project for producing compatible munitions for the 155 mm M-483/M-864 howitzers.

210. The harmonisation of needs is one of the basic questions on which progress is very slow, which hinders the work of Panel I. The needs of Western Europe's armed forces are not basically different. Simplified in the extreme, the scenarios described in the documents which outline requirements – such as the white papers of France, Germany, the United Kingdom and even of Italy and Spain – raise two possibilities: the defence of national territory against major aggression and limited intervention abroad. However, national planning and programming procedures differ from one country to another. This situation creates incompatibilities in timetables which are particularly awkward to deal with.

211. Given the discrepancies between the political, economic and budgetary thinking of the various countries, it is obviously premature to envisage European programming⁸³. “German and United Kingdom planning are systematic and far more structured than French programming. In France, programming is more “political” than in Germany or the United Kingdom where planning is directly linked to the budget cycle and in fact is more “technical”. Since 1980, France has reviewed its programming with each change of government. Moreover, Germany has a rolling programme as does the United Kingdom, with an update every three years. In France, however, since the mid-80s, an update has been envisaged on a three-yearly basis.

212. It should in fact be possible to achieve a minimum of co-ordination. In all these countries the joint services staff committee is responsible for this work. Their timescale is basically the same in France and Germany (5 to 6 years looking 15 years ahead).

213. As a certain number of players involved have proposed, it would be interesting for WEAG to reflect on ways of achieving the target of a ten-year rolling programme for equipping European

83. See “La programmation militaire en Allemagne et au Royaume-Uni”, *L'Armement*, No. 43, July-August 1994, page 107.

armed forces, at least as far as main programming is concerned. As to programming itself, it would nevertheless be necessary for co-operation to be based on firmer commitments than the present exercises implemented by WEAG, such as the equipment replacement schedule, involving juxtaposition without any tying in.

214. More liberal states might see in this proposal for European programming an initiative to achieve market transparency, while the more centralised among them might interpret it as co-ordinated programming.

215. The idea has even been put forward by some that this programming exercise might go hand in hand with a white paper on European defence, identifying threats to and common interests of the partners involved, and also with a decision in principle to co-operate, except in cases of manifest impossibility, in all programmes above a certain cost limit. This decision would constitute recognition that there would in future be no major national armaments programmes.

(ii) *Panel II*

216. Panel II's tasks are to strengthen the position of Europeans in defence and research technology. Sharing research costs is in fact becoming increasingly essential because of the exponential costs of developing technologies and cuts in defence budgets. Besides management of the EUCLID programme (European co-operation for the long term in defence) in which industry and research institutes participate, the panel's activities include defining CEPAs (common European priority areas), organising research and technology projects (R&T) in each CEPA and co-ordination and monitoring of research and technological projects (RTP). EUCLID is the only European military programme for co-operation in research and technology. It aims to pool research funds (in order to reduce duplication to the minimum), to increase the funding available for research projects and, lastly, to prepare for the armaments Europe of the future.

217. A memorandum of understanding (P-MOU) signed on 16th November 1990 defines the working methods of the EUCLID programme: keeping an up-to-date list of CEPAs and setting up, within each CEPA⁸⁴, research and technology projects developed in anticipation of future equipment requirements.

218. The results of the EUCLID programme have been mixed. After a relatively slow start,

84. There are currently 15 CEPAs: for example CEPA 1 deals with modern radar technology, CEPA 2 with microelectronics, CEPA 9 with satellite surveillance technology, CEPA 10 with underwater detection and related technology, etc.

EUCLID has developed a firm base: work is going on in thirteen CEPAs, 49 current research and technology projects have been approved by Panel II and 29 contracts, worth 210 MECUs in total, have been notified. However, at present EUCLID is stagnating at around 60 MECUs per annum, considerably less than the target of 120 MECUs per annum fixed by the defence ministers in 1990. There are two main reasons for this shortfall: first, the scarcity of new proposals for research and technology projects put forward by the CEPA steering committees and, second, the long time scales, even though these have been considerably reduced. Moreover, the impossibility, in the present state of European defence consultation, of identifying budgets to be allocated to the various CEPAs also explains why participation is on a piecemeal basis rather than based on joint funding. This is a structure that is frequently criticised, particularly for bringing in too many countries⁸⁵, and today it is coming up against strong competition⁸⁶ from bilateral co-operation, which is easier to manage⁸⁷.

219. Nevertheless one positive development is emerging. Until now EUCLID has operated on the principle of voluntary contributions from each nation. Major progress was achieved recently with the establishment of a Research Cell⁸⁸ within WEAG (CRC, Step 1), composed of 7 people and operational since May 1995. The cell and the Armaments Secretariat form an enlarged secretariat. Located in Brussels, administratively it comes under the political division of WEU. It reports directly to Panel II and to the Research and Technology Management Committee (RTMC) for all operational matters. The cell seeks to improve the efficiency of the EUCLID programme in order to encourage the creation of new projects. It has the task of providing leadership in EUCLID structures such as the CEPA steering committees and the RTP management groups. This is an interesting departure in as much that the CEPA Steering Committees are responsible for proposing new RTPs to the Panel. Moreover the RTP management groups play an essential rôle in reducing the time involved in placing contracts.

85. When there are more than four partners in a project serious difficulties often emerge relating, for example, to the end use of results.

86. According to Xavier Lebacqz, EUCLID co-ordinator for France, over 70% of European co-operation is bilateral and involves France, Germany and the United Kingdom. (INFO DGA, No. 76, September 1995, page 24.)

87. See "Armaments Europe forced to succeed", Info. DGA op.cit.

88. The decision to create this cell was taken by ministers in November 1994; staff appointments were approved by the Council in March 1995.

220. The establishment of a permanent body supporting co-operation in research among WEAG countries testifies to the importance of a programme such as EUCLID⁸⁹. According to the former Chairman of Panel II, this first stage in the harmonisation of European endeavours in upstream studies gives WEU a capability which NATO does not have.

221. On a proposal from Panel II, the NADs have decided on several measures which should help to strengthen the EUCLID programme⁹⁰:

- the decision in principle to give the Research Cell greater autonomy, after a probationary period, by granting it the status of subsidiary organ of WEU planned for the European Armaments Agency (CRC Step 2, which envisages the establishment of a system for placing contracts and following them up is scheduled for 1996)⁹¹;
- the recommendation to take account, in the EUCLID research programme, of topics developed in other co-operation frameworks that exist between WEAG countries;
- the approval of the Eurofinder procedure allowing unsolicited proposals to be taken into account in the programme, emanating from consortia submitting technological co-operation bids. Moreover it was decided to hold an initial Eurofinder seminar in March 1966. The Eurofinder mechanism which should become operational after that date allows for the development of EUCLID. It would be desirable, once it has an independent budget, for the EUCLID Cell to implement a research and development plan drawn up in accordance with expressed military needs which should be institutionalised, outside the present area of responsibility of the WEU Planning Cell or the Eurolongterm subgroup. The latter aims to promote effective long-term military planning but its very limited brief should be extended to enable it to define its military needs.

222. Among the important achievements of the EUCLID programme, besides the research contracts in progress, mention should be made of the close relations established in recent years bet-

ween those with responsibility for defence research at the level of both government and industry.

223. Contacts between Panel II and the EDIG have also increased and greater trust has been established. These contacts led to the first EUCLID symposium being held in The Hague in November 1994⁹².

224. Moreover, the NADs have agreed to examine the feasibility of the study proposed by the EDIG with a view to identifying technological priorities for the defence of WEAG countries.

225. Work still remains to be done, particularly regarding convergence between government laboratories, to which EUCLID procedures are ill-adapted. A framework memorandum of understanding (MOU), which takes up the former TA/CTP provisions used by the steering committees and management groups, adapting them to make them more effective, is in preparation. It should be submitted to ministers of defence for approval at their November 1995 meeting in Madrid.

226. Victor Marçais, a former Chairman of WEAG Panel II, wishes those responsible for research policies in WEAG countries to be more adventurous, while national incentive measures are proving necessary for achieving the EUCLID programme. He also invites the Chairmen and members of the CEPA steering committees and the relevant industrial groups to be more imaginative in bringing forward new research projects (RTP).

227. Panel II has formed a joint working group "Panel II/Panel I" to prepare the Research Cell's move to the second stage. This working group is to work out rules for placing contracts and study the corresponding terms of payment, in accordance with the rules for placing contracts of the WEU subsidiary organs and with the charter of the future European Armaments Agency, currently in preparation.

(iii) Panel III

Areas of expertise

228. Panel III's area of responsibility concerns the broad outlines of a common policy on defence economics and armaments co-operation. In recent years its task has been to develop principles and procedures applicable to creating and opening up a European defence equipment market (EDEM). The specific topics⁹³ for which Panel III is res-

89. Dr. Emst A. van Hoek, Chairman of WEAG Panel II. Introduction, WEAG Research News, No. 1, 15th September 1995.

90. Victor Marçais, in the periodic letter from the EUCLID National Co-ordinator, No. 6, DGA, March 1995.

91. A decision is to be taken by the NADs in late 1995.

92. This was attended by 350 government representatives, military personnel, researchers, industrialists, journalists and scientists from all the WEAG countries. Expressing its satisfaction, the EDIG supported the idea of a second symposium. This is planned for late 1996.

93. Among these are the proposals drawn up in 1988 in the plan of action adopted by the ministers of defence of IEPG countries which completed the Vredling report "Towards a stronger Europe".

possible include international competition, visibility of needs, the application of fair return and a number of provisions such as exchanges of information on suppliers, co-ordination of procedures for calls for tenders, common criteria for the award of contracts, technology transfer, backing for countries with developing defence industries (DDI)⁹⁴. These objectives have not yet progressed beyond the stage of highly theoretical declarations of intent.

229. A number of questions are under discussion among the countries participating in the various Panel III sub-groups. This work has given rise to proposals and conclusions which are examined by the Panel and which, if approved, are submitted to the NADs.

Countries with developing defence industries (DDI countries)

230. Sub-group 7 is tasked with studying the introduction of support measures for the developing defence industries (DDIs) of three countries: Greece, Portugal and Turkey. To this end, in November 1993, the WEAG defence ministers approved a document prepared by the Portuguese presidency which proposed "guidelines" and "detailed measures". The repeated absence of Turkey from the working group meetings in question hindered the group in pursuing its work effectively.

231. Greece⁹⁵ has recently taken over from Portugal the chairmanship of Sub-group 7, which, since its creation in 1987 has been successively chaired by Greece, Turkey and Portugal for two and a half years.

232. The topics dealt with in this sub-group are specifically:

- identification of the capabilities of DDI countries necessary for maintaining military equipment and "niche" production. In particular, this involves determining sectors and/or niches regarded as promising for DDI countries in the context of maintaining Europe's defence technology and industrial base;
- procurement support to DDI countries. In this area, these countries question the lack of information from which their defence industries suffer regarding the procurement programmes of countries that do not belong to this group.

233. Furthermore a document on the "detailed measures" provided for the introduction of specific support from non-DDI country firms, which

should organise better co-operation in research, development, production and staff training.

234. *The Sub-group on contract regulations and procedures for the European Armaments Agency* is tasked with establishing the ten principles applying to armaments procurement in the European Armaments Agency. Consensus has not been achieved on the principles relating to dispute settlement and support for the defence industry and technology base either in the sub-group or within the framework of Panel III, a point to which we shall return.

The defence industry and technology base

235. WEAG's aim to promote and develop co-operation between member countries implies the existence of a favourable defence industry environment. The defence industrial base is shrinking, in particular because of the almost universal reductions in European defence budgets. The urgency of maintaining this base has led WEAG, in the framework of Panel I, to concern itself with this matter. The DITB sub-group is in fact studying those aspects of the defence economy of the WEAG countries which relate to security. It includes representatives of the most important countries in the armaments field (France, the United Kingdom, Germany and Italy) and also other countries such as Portugal and Norway. This working group aims to give substance to the economic security concept of European defence, discussed by the WEAG defence ministers at their informal meeting on 23rd March 1995. It has moreover identified several subjects for further discussion, among them reduction of overcapacity, security of supplies and financing for research and development by transnational companies. The group has drawn up a document on the establishment of a defence industry and technology base (Which collective building of a European DITB), approved by Panel II in 1995. The DITB sub-group is undeniably a major success of the WEAG's French presidency.

236. On the basis of a questionnaire circulated to all WEAG members and to the EDIG, the DITB sub-group compiled a summary document giving an overview of countries' positions. For example it highlighted the fact that competition was the most awkward problem. Moreover, it showed that there was general agreement in thinking that it was essential to maintain existing design and production skills.

The DITB sub-group

237. The DITB sub-group stressed that the conditions now existed in Europe for creating a true defence industrial base (from research and development to testing and maintenance).

94. Such as Greece, Portugal and Turkey.

95. Under the presidency of Dr. Evangelou.

238. However, despite the progress achieved in certain areas, it is necessary to find synergies between the fragmented industrial bases and reduce excess capacity. This need is largely accepted by WEAG countries. The analysis carried out by the sub-group furthermore indicates that the European defence industry would become more efficient and productive if competition and co-operation were developed in WEAG. Once it had become competitive, it might in the future compete or collaborate with the American industry.

239. Yet several questions are still under discussion in this connection:

- the problem of competition is often viewed as a matter of principle; the opening up of markets on a competitive basis presupposes a preliminary restructuring, while competition is often regarded as contrary to industry consolidation and work-sharing, whereas it would probably help to maintain the defence industry in Europe;
- positions regarding the United States fluctuate between those that feel threatened by the prospect of potential retaliation, those that regard the United States as a defence equipment and technology supplier offering good value for money and those that do not wish to compromise their opportunities for subsequent competition between future European and present American monopolies.

240. A degree of European solidarity is nevertheless proving very useful in enabling European countries to rival the United States and other countries. But rather than develop a form of European preference which requires that all member countries be convinced that this preference will be in their long-term interest, there is a preference for trying to have the "Buy American" legislation abolished along with other obstacles to reciprocal market access, which seems a pious hope at the present juncture.

241. Lastly, the various national comments on the questionnaire indicate that there is still some way to go before consensus is reached on the issues raised. Some governments rely heavily on market forces while others favour alternative policies to improve the situation of the European defence industry. A positive approach does however emerge with increasing recognition of the need to establish a common defence equipment base. Such a base could collaborate on an equal footing with the American industry and compete with it in world markets.

242. The topics developed by the DITB sub-group are the following:

1. Research, development and testing

243. The panel is divided between countries which make a clear distinction between national defence and security needs (in the wider sense – in other words including economic and social aspects) in critical technologies, generally limited to poles of excellence or specific characteristics of their defence posture, and the defence and security of Europe (to be determined on the basis of a common European defence policy encompassing the whole spectrum of research and development) and the others which make no distinction between these concepts.

244. Nevertheless, it is widely considered that Europe must aim at developing capabilities across the full spectrum of technologies, that emphasis should be put on electronics and information technologies, new materials and stealth, that research systems should be supported and that EDIG has a rôle to play through its studies and proposals.

245. The industry considers that a dialogue between governments is necessary to determine critical technologies in the long and medium term. This means that strong co-ordination between governments and industries must be developed. The most critical technologies must also be known for governments to spend money appropriately and for industry to invest accordingly. Firms also consider that government funding for research and development is more essential than ever. Industry can contribute to this effort only if production programmes allow it to recover its investment in technology.

246. The evolution of the industry towards dual-use technology is welcomed by countries and should be extended across the entire range of technologies. However this trend is obviously viewed as a means of taking advantage of the best commercial infrastructures and products and applying them to military uses. Promising fields are numerous. European Union funding would be useful in critical technology sectors insofar as the military will be increasingly linked to civilian dual-use technologies.

247. For EDIG, dual use is not a clear concept: it can be misused. Specific developments are frequently requested which are not profitable for the companies nor for the governments. But EDIG allows that there is a linkage between military and civil applications at the level of products which can be cost effective if these products are to be used as they are. For industry, it is the "funded" transfer from the military to the civilian which is promising as a means of preserving high technology.

248. Most countries asked think that WEAG provides a useful forum for exchanges and to avoid gaps in the European technological base. In the future WEAG nations may find ways of

improving European co-operation, for instance by concentrating research efforts and resources in specific fields between governments on a reciprocal mutually reliant basis.

249. This will be enhanced by transnational restructuring. The sub-group suggests that industry should be free to choose the fields in which to invest and whom to co-operate with. But, for EDIG and a few countries, more co-ordination between governments is requested. Furthermore, governments should help industry to concentrate more on military priorities and future programmes.

250. Countries generally consider that rather than maintain expertise artificially, except in strategically essential sectors, it is better to meet requirements through the intermediary of competition. It is the responsibility of firms to choose in which areas they should be involved and be competitive; they have to design and produce items which are competitive and marketable.

251. For EDIG, maintaining these competences is a priority which is shared by states. Some consequently admit the need for public funding through policies promoting prototypes and technology demonstrators.

252. Concerning the existing test centres in Europe and the need to harmonise and co-ordinate national investment policies in that field, countries have a very positive approach. It is a matter of avoiding redundant capacities, trying to agree on equipment requirements and then specialising test centres and opening them to different customers. The question is generally handled by the WEAG Panel II subgroup on test facilities.

2. Procurement principles

253. Regarding harmonised procurement rules in Europe and ways of achieving this, the whole spectrum of positions is noticeable among states. Some believe compulsory joint rules are needed, others speak of desirability. Yet others admit that harmonisation would be a major improvement but remains a long way off or is desirable and necessary to achieve fair and equitable treatment of suppliers while others think that harmonised procurement rules improve competitive procurement conditions.

254. In any event, WEAG is widely considered an appropriate forum for working out proposals for procurement regulations.

255. The increase in the level of reciprocal purchasing is generally welcomed by states, the more so as it has been a major goal of WEAG these last years. This is also considered as a means of upgrading the capabilities of smaller countries and implementing WEAG rules on competition. But no new practical solution has been brought forward apart from the abolition of non-tariff barriers.

256. On how to make distinctions between the fields where competition is undoubtedly positive and where it is detrimental to the preservation of long-term manufacturing interests, positions vary between:

- countries which do not accept such a distinction because for them competition is always positive insofar as it offers ministries of defence best value for money and encourages industry to restructure and develop its efficiency to achieve better positions in the world market; this is wholeheartedly the position of the United Kingdom, an enthusiast when it comes to best value for money;
- countries which consider that competition might be counterproductive for the production of main weapon systems but that it should be mandatory for sub-systems;
- countries which believe that one should differentiate between categories of equipment. They seek to avoid the constitution of world monopolies by trying not to jeopardise the European defence technology and industry base.

257. According to the DITB subgroup, these must not be viewed as antagonistic positions. Pragmatism is in fact the rule: if competition is usually positive, there are cases where, for national or European security reasons, governments wish to maintain either national capability or specific industrial monopoly.

3. Production, modernisation and maintenance

258. In short, it is accepted that cost efficiency is required, competition is advocated and restructuring and consolidation is the specific responsibility of industry within a free market environment without government involvement or subsidies.

259. Nearly all countries believe that the motivation is not to sustain declining business to improve efficiency and productivity. The opposition, if any, is between those who believe that ministries of defence remain a customer of industry rather than its sponsor, and those who think that armaments activity is an essential matter for defence policy and economic security and therefore requiring active government involvement, especially as far as the health of the industry and research and development funding are concerned. Nevertheless a wide consensus exists to consider this issue as a fundamental one.

4. Industrial restructuring

260. When considering whether overcapacities should be reduced at the European level and which players should have responsibility for

restructuring defence industries, states mainly view this as the business and responsibility of the industry through consolidation, rationalisation and diversification, relying upon the market forces to stimulate reductions.

261. Some countries consider that no government guarantee is required, because compensations and subsidies are considered to be distorting and to postpone the necessary decisions. On the other hand some consider that there is a need for co-ordination and concertation between governments and industries to keep an acceptable level of production in critical defence sectors and to minimise subsequent adverse labour and economic effects.

262. EDIG is of the opinion that overcapacities have to be reduced for commercial stability. The existence of a fully open and fair European defence equipment market will then ensure that normal market trading arrangement will encourage the restructuring changes necessary.

263. EDIG is also of the opinion that national policies must be harmonised. Governments must promote the fundamental home base in those defence industrial technologies which are essential to the conduct of government business.

264. A large consensus among countries appears to be that in the field of restructuring, governments should provide, to the maximum extent possible, advice and information about future market requirements, and plans for procurements; at the European level, guarantee of supply of whatever type of equipment should be secured; the goal is the creation of a sound, future-oriented industrial base.

265. In terms of preserving innovation and expertise in the frame of restructuring, states attach extreme importance to the issue of key technologies (either dual-use or purely military).

5. The need to go further

266. It is now time to consider a rational demarcation for the European DITB. Several types of criteria govern such delimitation:

- political and military criteria; it is necessary to identify a common core of requirements regarded by all countries as having priority (for example: air transport, satellite intelligence capability, long- and medium-range airborne weapons etc.) and equipment able to meet these requirements;
- the technological and financial "barrier to entry"; there is a need to identify military equipment with a high research and development content which European

states could not abandon without risk of becoming excessively dependent on the United States (for example, combat aircraft);

- lastly, commercial availability; it is necessary to know the actual number of suppliers and their reliability.

267. In view of the analysis of the European DITB in the previous chapter, it is necessary to envisage an overall reaction taking into account both demand (evolution towards a common definition of requirements) and supply (industrial restructuring and strengthening scientific and technological capability). On the demand side, one stage in the evolution of doctrine will be the drafting of a European defence white paper, approved by WEAG defence ministers and specifically providing a regular assessment of the scientific and technological capabilities of defence industries in Europe. This would be an important reference in terms of the evolution of national defence budgets and would facilitate programmes of common interest. Establishing a Committee of Chiefs-of-Staff assisted by project offices for each type of weapon and in contact with a European Armaments Agency would create the link between requirements and procurement.

268. On the supply side, priority should be given to operations for horizontal integration of the defence industries in Europe. In this area, the competition policy of the European Union might provide a suitable framework, on condition, however, that account is taken of the specific nature of the armaments sector and the global competition criterion (international and no longer merely European). Moreover, it might prove interesting to conceive of a form of interface between European Union research programmes and military research programmes. Such an approach would however imply that the thorny problem of confidentiality was resolved. Furthermore, real co-ordination between national centres of expertise and testing would be useful in maintaining the defence industry and technology base in Europe. The group of measures relating to supply would inevitably lead to geographic concentrations and industrial regrouping in Europe.

269. Finally, acknowledgement is necessary of the fact that, although not present in all WEAG countries, the DITB is essential for the security of these countries as a whole. Maintaining it and strengthening it consequently imply a commitment to collective responsibility by all, even the smaller countries with only a very limited industrial capacity. This contribution inevitably raises the question of such countries' right to be involved in the conduct of operations, the ways and means and extent of which have yet to be determined.

V. The European Armaments Agency (EAA)

(a) General

(i) Major reasons for creating a European Armaments Agency (EAA)

270. A European armaments agency should be able to contribute actively to Europe's military independence. In this connection the high-level group of experts on the CFSP stresses in its initial report that without an adequate combination of diplomacy and force projection capability there cannot be a credible CFSP⁹⁶. This political objective requires an effort of will on the part of WEAG member states, without which the future agency might be reduced to a mere central procurement unit to which the founder members turn only to initiate programmes without the long-term vision that is essential if there is to be lasting autonomy in defence matters. Such autonomy will have real meaning only to the extent that skills and know-how are preserved in areas considered to be essential. As in the United States, which, for budgetary reasons is planning to limit some of its programmes to the development phase, independence at European level will also depend on mastery of technology.

271. This agency should help to reduce financial requirements. Financial straitjackets are tightening around European economies and other priorities now compete with the defence effort. The international political-military context which emerged from the cold war is tightening budgetary constraints which are accompanied by an exponential increase in the cost of armaments. Consequently cost stabilisation or reduction will be one of the priority aims of the future agency. Research cannot be cut back without damaging the principle of independence. This observation implies choices which will mean preserving only the essential, using existing expertise and, where possible, preventing centres of expertise arising without good reason in non-priority areas.

272. Moreover, new considerations are likely to be necessary when deciding to launch an armaments programme; first, the same types of programme can no longer co-exist; second, military, political and industrial leaders will have to avoid co-operation leading to overlapping structures and longer delays – both factors which generate additional costs. These aims are directed in particular towards improving the competitiveness of the European defence industry as compared with that of the United States.

96. See: European security policy towards 2000: ways and means to establish genuine credibility; high-level group of experts on the CFSP, initial report, prepared at the request of Commissioner H. van den Broek, in his capacity as DG1 of the European Commission.

273. Lastly, an agency must be able to guarantee operational performance and interoperability. The decision to make multinational units available to WEU (the Anglo-Dutch amphibious force, the multinational airborne division, EUROFOR, EUROMARFOR) in combination with the CJTF the strengthening of the European Corps which is to become operational in 1995, along with other initiatives relating to joint forces and/or headquarters make efforts to achieve interoperability more necessary than ever, with a view to creating the conditions for future standardisation of equipment. The agency should enable the question of standards, logistical support, specifications, development methods and means of production to be dealt with jointly.

274. The definition of such an agency cannot be undertaken without taking account of existing national or European state structures, the armaments policies of WEAG members and the situation of the defence industry in Europe. The aspects referred to are in fact among the parameters for defining programme management structures in the framework of the agency⁹⁷, as are also relations between the United States and Europe.

275. The defence equipment procurement policies and frameworks established⁹⁸ differ from country to country in WEAG. These divergencies are undoubtedly obstacles to the decision to cooperate and are partly at the root of the difficulties encountered in conducting operations, both at the level of research and development and of managing armaments programmes. If, in the present state of affairs, these peculiarities cannot realistically be eliminated, efforts must nevertheless be concentrated, inter alia, on achieving closer convergence between the armaments policies and structures of the countries concerned. There are moreover several factors favourable to building an armaments Europe:

- by ratifying the Maastricht Treaty, the countries of the European Union, ten of them WEAG members, accepted an undertaking and the responsibility of establishing a CFSP which is to lead to a common defence, at the service of a political Europe. The work carried out in the framework of the CFSP, WEU and especially WEAG, although limited and inadequate, helps to create conditions that are more favourable to the emergence of a European security and defence identity;

97. See "Vers une Agence Européenne d'armement", Centre des Hautes Études de l'armement, 29th Session, phase stratégie, May 1993.

98. See Chapter IV: Armaments procurement and situation of the defence industry in Europe.

- whatever the procedures of their procurement policies (off-the-shelf procurement, with trade-offs, or independent development of their defence equipment) countries are moved, inter alia, by the same ambition, – i.e. to acquire high technology know-how;
- the countries concerned are progressively moving out of defence businesses and increasingly are encouraging competition and some forms of free trade;
- the generalisation of the notion of project work through national or multinational teams brought together within agencies serves to encourage co-operation.

276. In the face of these major factors likely to lead to the convergence of states' positions on defence equipment procurement, the differences identified between local structures appear to be obstacles that can be overcome.

(ii) An integrated project for building Europe

277. In 1991, in the negotiations on the Treaty on European Union, the French and German Governments relaunched the debate on the European Armaments Agency. Their proposal was for the creation of a WEU agency for armaments co-operation. The Maastricht Treaty explicitly raised the prospect of establishing a European Armaments Agency (EAA). The declaration by the WEU member countries, annexed to the treaty, stated that proposals regarding the operational rôle of WEU " particularly enhanced co-operation in the field of armaments with the aim of creating a European armaments agency ". Later, the Petersberg declaration of June 1992 provided in particular that WEU and IEPG experts would undertake an initial examination of the rôle and functions of a possible EAA. In March 1993, the NADs decided to create an ad-hoc working group in WEAG in order to study all questions relating to the creation of the agency and to analyse its tasks.

(iii) The WEAG ad hoc group on the EAA

(The principles guiding the discussions of the ad hoc group; the work of the ad hoc group)

278. In its first report dated September 1993, approved by the NADS in March 1993, the ad hoc group concluded that conditions did not at present exist for the creation of an agency conducting the full range of procurement activities on behalf of WEAG member nations, but noted that there might be potential in individual areas for improvements to be made in the conduct of co-operative business through the mechanism of a body having a legal personality. It is regrettable that from the outset the conclusions of this study group were luke-warm and its proposals not particularly ambitious.

279. At their October 1993 meeting, the NADs tasked the AHSG to consider the structure and legal status for such an agency, a detailed description of its tasks and funding, its relationship with the WEAG panels on the one hand and with the European Community and NATO on the other. This work led to a second report dated September 1994. In parallel with the Panel II report on the creation of a research cell, the second report of the AHSG also envisaged the necessary organisational arrangements for establishing this cell. A third report in September 1995 sets out the conclusions of the ad hoc group on the charter and general memorandum of understanding, on the Western European Armaments Organisation (WEAO) and the European project offices.

280. Several principles have guided the discussions of the group since its creation. These are:

- continuing pressure for value for money in defence procurement decisions; the group should be able to demonstrate that added value is to be expected from any new arrangements in the framework of activities taken over by the EAA. There should be no duplication of existing co-operative arrangements;
- in accordance with the principles agreed for the incorporation of IEPG into WEU, any decision must have the full support of all members of WEAG whether or not they are full members of WEU;
- any arrangements should ensure the full responsibility of the NADs;
- any arrangements proposed should be consistent with the aim of developing an open European defence equipment market (EDEM) and should contribute to that objective.

*(b) The European Armaments Agency:
form and substance*

(i) Possible tasks

281. The EAA is to be created on the basis of WEAG, the successor to the IEPG, which, as suggested in a WEU document of which your Rapporteurs are aware, might carry out a number of tasks:

- *management of the EUCLID programme:*
the present most feasible prospect for the future EAA is to take over the EUCLID programme. The draft charter of the WEAO has therefore been drafted to enlarge the agency's work to include the tasks described below, and other such tasks as may be judged appropriate in the future. The Research Cell's progression to stage 2 should allow it to undertake

contracting functions, which necessarily implies that it should become a subsidiary body;

- *initiating European co-operation projects, each project being managed through the appropriate structures of the countries concerned:*

in its September 1994 report, the AHSG on the EAA considered that it would be appropriate to entrust such projects to an agency under procurement partnership arrangements. It would be for nations to utilise such arrangements as and when proposals for co-operative projects were agreed. It would be desirable for nations with joint projects to consider placing them with the agency or, alternatively, establishing them as EPOs;

- *off-the-shelf purchases, equipment procurement on the armaments market outside Europe:*

it would be interesting to identify any general category of equipment, the procurement of which might be transferred to the agency. Panel III has been considering the application of a common, rationalised approach to ammunition procurement;

- *foreign military sales and non-foreign military sales from the United States:*

work has been undertaken by the AHSG on the EAA to examine the potential benefits of passing responsibility for the handling of purchases from the United States to an agency. Clearly, the United States's reaction to such an initiative would be a critical factor to take into consideration. According to the second report of the AHSG, a joint European office handling foreign military sales purchases (FMS) might provide some leverage for Europeans in negotiations with the United States on the conditions of sale. However FMS structures are very rigid. Moreover, the United States authorities may set terms related to the least favoured nation clause. Moreover, some nations might be reluctant to compromise their close bilateral links with the United States and wish to retain existing arrangements. The ad hoc group's conclusions on this matter invalidate the idea that the creation of a joint office for promoting American equipment would allow significant savings to be made compared with present arrangements;

- *the development and management of installations and means for common testing, research and proving:*

the agency is probably a suitable vehicle for harmonising the use of existing test facilities in WEAG nations and for procuring and operating jointly future facilities which are financed jointly. Progress depends on agreement between nations to further co-operation in this area;

- *technology and operational studies:*

the establishment of an information service with economic, industrial and technological data providing support to WEAG and particularly for establishing a common armaments policy.

282. The importance of improved co-operation from the initial stages of a project is widely recognised. In this connection EDIG has often had occasion to recall the urgent need to make progress in this area.

283. The agency might be an adequate instrument for establishing the necessary technical resources required to undertake joint studies. Tasking for such work would be the responsibility of the organs of WEU responsible for harmonising the long-term concepts which form the basis for long-term military requirements. Consequently, it would be useful to intensify co-operation between WEAG and Eurolongterm, which has responsibility for promoting effective long-term military planning with a view to determining military capabilities and equipment requirements beyond a ten-year timescale.

(ii) The legal basis necessary for the creation of an agency

284. Under Article VIII of the modified Brussels Treaty, the Council of WEU may set up such subsidiary bodies as may be considered necessary. A subsidiary body shares WEU's legal personality and thus is able to pass contracts and bring actions at law, for example. Although established by the Council, subsidiary bodies are not necessarily placed under its direct authority.

285. Were it to take a decision in favour of the agency, the Council should, in accordance with the Petersberg declaration, do so at the level of thirteen nations, so that the interests of all WEAG members are taken into account. The functions, mandate and powers of this subsidiary body would be set out in a charter to be approved by all the nations.

(iii) The Western European Armaments Organisation (WEAO)

286. At their meeting in March 1995, the NADs agreed the proposal to create the agency as an executive organ of a Western European Armaments Organisation. The members of the AHSG

on the EAA stated in their 1994 report that the WEU Council would establish an organisation (the Western European Armaments Organisation – WEAO) comprising a Board of Directors (BOD) – the highest policy and management level of the WEAO – and an executive agency under the direction of the BOD. The latter would be composed of the WEAG NADs or their representatives. The aims of the WEAO would be to strengthen European co-operation on armaments, improve the defence technology base and support the creation of a European defence equipment market, in accordance with WEAG principles.

287. Some of the tasks entrusted to the agency would be undertaken at the level of thirteen nations and others on behalf of a limited number of countries. It is therefore necessary for the agency's charter to make provision for activities bringing together groups of countries in a "procurement partnership". The agency would technically be accountable to all thirteen nations for the activities of a procurement partnership. However it is possible, by agreement between the thirteen WEAG member states, for the subsidiary body to form within the agency groupings of countries interested in a procurement partnership, while still retaining WEU's legal personality.

288. Each procurement partnership would be established by agreement between the participating nations. Such an agreement would include the creation of a programme office to manage the activities envisaged under the partnership agreement. It is possible that some activities may involve the combination of activities by thirteen nations and activities involving a more limited number (the EUCLID programme is an answer). The concept envisaged by the AHSG establishes a scale of activities within the agency, linking them to various arrangements:

- the charter, setting out the overall functions and rules of the WEAO;
- arrangements regulating activities at the level of thirteen (for example the EUCLID programme's RTMC⁹⁹);
- arrangements regulating procurement partnerships, in other words the activities undertaken on behalf of a more limited number of interested nations (for example to direct EUCLID research and technology projects – RTPs).

289. One of the options supported by several countries would be to regroup under the aegis of the agency a series of bilateral and multilateral co-operation initiatives, which might include the creation of the Franco-German structure the two countries in question plan to establish on

1st January 1996 to manage joint projects. This agency would thus provide WEU countries with a convenient framework for joint programmes without their having to set up costly administrative offices for each co-operation initiative.

290. The Horizon anti-air frigate programme would be a logical candidate for the agency under WEU status. Developed by France, Italy and the United Kingdom, the programme is managed by a London-based joint programme office which has no legal standing and thus cannot award contracts or take any legal steps to subcontract to the national procurement agencies of the three countries.

291. Another European programme, the NH-90 helicopter, might also qualify. This is run by a four-nation management agency established under the aegis of NATO, although the NH-90 is not a NATO programme, because no other legal status was available at the time the programme was started.

292. Relations between a Western European Armaments Organisation and the Council of WEU would be the same as those that exist between WEAG and the Council. In accordance with the six principles agreed for the incorporation of the IEPG into WEU and approved by the Council of Ministers in Bonn, in June 1992, then reaffirmed in Rome in May 1993, European armaments co-operation is placed under the responsibility of the WEAG ministers of defence and national armaments directors. The 1992 basic principles would apply to WEAO as follows:

- all members would participate, with the same rights and responsibilities, in any armaments co-operation forum;
- there should be a single European armaments co-operation forum in order to avoid any duplication;
- the organisation's activities in Europe should be managed by the national armaments directors who will be accountable to their defence ministers;
- the link between the IEPG and EDIG should be maintained;
- this body should be based initially on the agreed policies of the IEPG and maintain existing links with NATO.

The future Western European Armaments Organisation would therefore be answerable to the latter. The EPO (European Project Offices) would also be accountable to the defence ministers and the NADs.

WEAG and the European project offices (EPO)

293. Although theoretically possible, the solution of constituting WEAG as WEAO is not recommended by the AHSG. The activities of

99. Research and Technological Management Committee.

WEAG extend beyond the management of executive tasks of an agency and the designation of WEAG as a subsidiary body of WEU would have implications for the position of states which are not full members. At present the group does not consider this stage to be necessary since it sees the WEAO as an organisation separate from WEAG. Thus the armaments secretariat and the panels would remain responsible for WEAG's activities.

294. Countries might, if they wished, establish European project offices as subsidiary bodies separate from WEAO under their own statutes. The designation EPO refers to large projects involving a limited number of nations, such as the Eurofighter 2000 or the next-generation Anglo/French/Italian frigate. The advisability or otherwise of establishing the EPO as separate subsidiary bodies is still open to discussion. In its 1994 report the AHSG stressed that it would be for nations establishing a large new project to decide whether they wished it to be handled by the EAA or by a separate body. It is nevertheless to be expected that an EPO would operate as far as possible in accordance with agreed WEAG procedures and would make maximum use of the services of the agency, should one exist, where this offers value for money.

Charter and general memorandum of understanding

295. A draft charter for the WEAO, setting out its authority and powers and a draft general memorandum of understanding (GMOU) on the principles for the operation and administration of the WEAO have been drawn up by the AHSG and agreed as far as possible by all WEAG nations. However the AHSG was unable to resolve difficulties in a number of areas and at their October 1995 meeting the NADs failed to resolve differences on the following questions:

Administrative cost-sharing key

For procurement partnerships, which are expected in the longer term to account for most of the agency's work, cost-sharing arrangements would be agreed by the relevant participants and set out in subordinate arrangements. However, for tasks carried out on behalf of and of equal benefit to all participants (studies for example) a cost-sharing key will be required to be set out in the general MOU. Clearly it would make sense for this to be the general WEAG cost-sharing key; however some nations are not satisfied with the WEAG key as it stands and could not accept its adoption, even initially, as the basis for sharing costs for common activities in the agency. Resolution of this issue requires either:

- (i) the formulation of a new WEAG cost-sharing key acceptable to all nations, which could also be used as the cost sharing key for activities carried out by the agency on behalf of all participants; or
- (ii) the formulation of a cost-sharing key specifically for activities carried out by the agency on behalf of all participants.

Procurement principles

The general MOU, in the section dealing with contracts, covers the issue of procurement principles for the agency. Panel III has been unable to reach unanimity on the ten draft procurement principles. Although there is general agreement on eight of the principles, two cannot be agreed. Principle 9 on the settlement of disputes is rejected in particular by the United Kingdom, which does not accept recourse to arbitration as long as a contract has not been awarded.

Principle 10, concerning the defence industry and technology base (DITB), has not been validated either. Here again the United Kingdom stands alone, refusing to entertain any reference to maintaining the DITB as a procurement principle, even one with a weighting. Thus the situation at present seems deadlocked. Moreover principle 5 on the award of contracts has been the subject of bitter argument within Panel III's subgroup on the EAA, the smaller countries demanding that more importance be given to fair return and to maintaining expertise in DDI countries. The new draft of this principle gives fair return more than its due share of importance, thus placing a financial burden on the practical operation of a future EAA.

The AHSG feels that the ten principles should remain provisional until such time as all are agreed. Also, as outlined in the report by Panel III, it has become apparent that present procurement arrangements for the EUCLID programme are not consistent with those planned for the wider field of action of the EAA. The draft general MOU includes a provision which excludes EUCLID procurement from the stated principles; however NADs may consider it anomalous that what might be the inaugural task for an EAA would not be using "standard" EAA procurement practices.

Exemption from taxes and customs duties

The existing text, which is supported by the majority of nations, provides that, if a participating state cannot waive these charges, the expenses to cover them would be borne

by the participating state imposing them. Certain countries cannot accept this and the text remains provisional.

296. The NADs are asked to consider these issues and provide guidance, as appropriate for the AHSG. At their meeting on 20th October, they were not in a position to reach agreement on these points and speed up the process.

The decision to establish the WEAO

297. As confirmed by the NADs at their spring 1995 meeting, and in the spirit of the six key principles which guided discussions on the incorporation of the functions of the IEPG into WEU, any decision to establish the WEAO must be made at the level of thirteen nations. Once a decision is taken, political agreement will be required at defence minister level.

298. The organisation could be created as a structure into which various activities might be integrated as and when required. To this end, the appointment of a general manager is proposed and a minimum staff to establish an initial infrastructure.

299. Conversely, the NADs and defence ministers may consider that the organisation should be established only when a first significant task has been determined. If in spring 1996 the NADs decide to proceed to a step 2 Research Cell, this might be the agency's first task.

Procedure to be followed for establishing the Western European Armaments Organisation

300. According to the preceding decisions of the NADs, it will be necessary to obtain the political agreement of the WEAG defence ministers for creating the Western European Armaments Organisation. The WEAG defence ministers may then ask the WEU Council of Ministers to adopt their conclusions officially and give their agreement to the charter. These decisions are to be taken by thirteen members. At the NADs meeting on 20th October no political agreement was reached which might advance this process and enable such an organisation to be created. Officially, the adoption of the charter will, when the time is ripe, depend on a decision to be taken by ten members of the Council and it is expected that the three members of WEAG which are not full members of WEU (Denmark, Norway and Turkey) will be linked to WEAG by an exchange of letters. In practice, this exchange might be effected on behalf of the Council by the Chairman of the Council of Ministers. Once exchanged, the letters will be officially annexed to the charter.

301. Once the political conditions have been met, these initiatives will lead to the establishment of the Western European Armaments Organisation which will be a subsidiary body of WEU.

302. The final stage in the procedure will be the signing of the general memorandum of understanding by the defence ministers of the countries intending to take part in the organisation. This act will commit the countries to finance its activities and only the countries which intend to participate will have to sign this document. WEAG countries not wishing to participate in the Western European Armaments Organisation on its creation will have the possibility of signing the general memorandum of understanding later in order to become members of the organisation.

A charter for the European project offices (EPO)

303. Following the timetable wished by the NADs, the third report of the ad-hoc study group dealt mainly with working out the charter and the general memorandum of understanding of WEAG and examination of the procedure to be followed for creating the agency. The elaboration of a model charter for the European project offices which would be created outside the structure of the European Armaments Agency was considered by the ad-hoc group as a less urgent task.

304. Furthermore, although the task of the ad-hoc sub group regarding the charter and general memorandum of understanding of the Western European Armaments Organisation is almost completed, nothing has yet been done to complete the model charter for the European project offices. Furthermore, in the discussions, it seems that it would perhaps be necessary to examine more closely the cost and practical arrangements necessary for setting up an agency, either as a simple structure to which activities might be transferred as required, or as a host organisation for the Research Cell (Step 2).

305. It is to be regretted that, at their meeting on 20th October 1995, the NADs did not decide to lay the cornerstones of a Western European Armaments Organisation. They merely took note of the draft charter and general memorandum of understanding for the organisation. It is already known that this question is not on the agenda of the meeting of the WEU Council of Ministers in Madrid on 13th November.

306. As to the prospects of a European Armaments Agency, several options can already be seen. The minimum option would be to make the agency a kind of secretariat, with minimum means and responsible for a small number of important programmes. The lack of political will in Europe regarding identity of views on operational requirements and/or the monopolisation of joint requirements for collective access at transatlantic level would prevent joint requirements from being defined, however necessary they might be.

307. A more elaborate solution would be possible if the WEAG countries were to transfer their research and significant armaments programmes to the agency (through the intermediary of the EUCLID cell). Compulsory programmes would be the central nucleus and complementary and more limited co-operation would form the periphery. The latter might be managed by legal structures placed at the disposal of the partner countries by WEU, in a manner similar to that of the NATO agencies.

308. In view of the latest discussions by the NADs, the first option seems the most plausible as matters now stand. Although a minimal one, it might be a first step towards more sophisticated formulas. If it were decided to create an agency at the minimum level, it would be necessary to provide for means of reassessing its working, tasks and means. This procedure for reassessing would have to be set in motion by the member states and would help to maintain the drive in the process towards the integration of defence markets and industries in Europe ¹⁰⁰.

309. Although not envisaged in the short term, the creation of an agency with its own legal personality and financial means responsible for planning a European approach to industrial and technological policy is still nevertheless a goal to be achieved in the medium term, once some of the obstacles have been removed.

310. Finally, unrealistic as matters now stand, the maximal solution of instituting a proper European armaments procurement agency is nevertheless the final stage of European integration of national defence policies.

311. Probably the introduction of a European Armaments Agency will be achieved very progressively and selectively. Several factors will influence the future of this project: the evolution of the European strategic theatre, that of transatlantic relations and the definition of a European defence policy, the rhythm the states decide upon to organise their armaments programmes at European level and, finally, their political determination to define "joint requirements" and the resulting equipment.

(c) The Franco-German initiative

312. On the occasion of the Franco-German summit meeting in Bonn in December 1993, the defence ministers, Mr. Léotard and Mr. Rühe, decided to create a common armaments agency with the task of managing bilateral programmes

100. Towards the creation of a European Armaments Agency, Pierre de Vestel (research attaché at GRIP, Brussels) in WEU and the European defence policy, Political and social problems No. 754, Documentation Française, 1995.

with a view to improving efficiency in these programmes and reducing management costs.

313. With the decision to set up a structured bilateral body to simplify the present organisation governing armaments and research programmes for Franco-German co-operation and to manage present and future bilateral programmes, new progress was made in co-operation ¹⁰¹.

314. The two defence ministers were indeed presenting a proposal for a common agency although their words were not explicit, perhaps for diplomatic reasons in regard to the United Kingdom, for instance. At the close of the December 1993 meeting, one Frenchman and a German were appointed to work on the question and make specific proposals.

315. The 63rd Franco-German summit meeting held in Mulhouse in June 1994 speeded up plans for a Franco-German armaments structure and its creation was foreseen for September 1995. With the conclusion of the preparatory stage of this bilateral initiative, it was decided that the agency would be inaugurated officially on 1st January 1996.

Missions

316. The value of Franco-German co-operation represents in all some F 4.5 billion. In addition to production programmes, particularly for missiles, it concerns mainly the development of helicopters, armoured vehicles, etc. The total cost of bilateral programmes is more than F 60 billion. This fact partly justifies the proposed Franco-German structure for armaments.

317. The programme of the two main countries participating in European co-operation is, *inter alia*, destined to rationalise structures and the cost of armaments for the two partners which have to respect considerable budgetary constraints and are required to work together more and more often, particularly through the European Corps.

318. It is planned to integrate in this Franco-German structure the bilateral armaments programmes for the Tiger combat helicopter, the modular armoured vehicle, Roland missiles, and the Milan and Hot Euromissiles. The agency should also handle Franco-German participation in multilateral co-operation programmes such as the NH-90 helicopter, the future large aircraft, satellites, and the Trigat anti-tank missile with the United Kingdom. This structure should also cover bilateral co-operation in research and technology programmes. Finally, the agency should also conduct parametric studies in long-term planning for the

101. Les Échos, 7th December 1992.

years 2010-2015, and very upstream operational and technical studies of future threats.

319. As mentioned in an earlier report by the WEU Assembly in 1994 (Rapporteur: Mr. Bordes), the Franco-German agency would create a single management office which would lead to the disappearance of national offices and would consequently result in financial savings and greater management efficiency.

320. Furthermore, one of the aims of the Franco-German initiative might be to endeavour to solve one of the main problems of European co-operation: rather than accumulate national approaches and often additional cost, an attempt should be made to select certain national methods for integration into a grouping in its own right. To this end, some integration and independence in regard to the national authorities would probably be necessary. It is not impossible that in this more restricted framework, relations between the two countries being already firmly established, one of the major questions of co-operation might be partly answered; is it not possible to envisage some delegation of sovereignty to the Franco-German agency, some independence and better integration if relations are close and habits already taken?

An initiative complementary to the creation of the European Armaments Agency

321. From the very outset, everything seemed to indicate that this agency would not be destined to constitute the initial nucleus of the future European Armaments Agency. It was intended rather to stimulate the creation and development of the latter by following a parallel course, while initially retaining its bilateral character, subsequently to be integrated into the agency. Moreover, the word agency was officially avoided so that the bilateral structure would not seem to be in competition with the planned European agency.

322. At the Noordwijk meeting in 1994, the French and German defence ministers said the Franco-German agency was seen as a first step prior to the constitution of a European Armaments Agency planned by the Maastricht Treaty. Indeed, the Franco-German structure is clearly destined to give decisive stimulus to the rationalisation of European resources in the field of armaments. This bilateral agency might become one of the pillars of a European Armaments Agency¹⁰².

323. Clearly, the idea follows the logic of the multinational units being formed and first and foremost the European Corps. The Franco-German initiative, for the time being limited to two countries, should be extended rapidly to the problems of interoperability and then standardisa-

tion, with a view to equipping the European Corps in co-operation. Since the latter is no longer strictly bilateral, there are grounds for co-operation being transferred, in this particular respect, to a broader European grouping.

324. The question of wider participation is still pertinent. In November 1994, the United Kingdom asked to take part in the Franco-German project. At the meeting of the WEU Council of Ministers in Noordwijk, the Netherlands, Belgium, Italy, together with Spain and Luxembourg, also mentioned their interest in the Franco-German structure. Quite possibly in the future Belgium and the Netherlands will be included since they both have close links with Germany and also because there also is a joint army corps. France for its part might be inclined to form another type of agency with Italy, with which it shares several programmes such as the NH-90 helicopter, Aster missiles, torpedoes and satellites.

325. After making known their intention to hand over the management of certain co-operative armaments programmes to a possible European agency founded by France and Germany, the United Kingdom and Italian Defence Ministers affirmed in March 1995 that the new agency might take over two major co-operation programmes, the Eurofighter 2000 and the new generation Horizon frigate. On that occasion, the Italian Defence Minister, Domenico Corcione, expressed the idea that the agency be created so as to rationalise European procurement structures and prepare for the long term¹⁰³. He added that the management of the Eurofighter programme by the Franco-German structure would be a means for Italy to reduce its overall procurement costs.

326. The Franco-British offer is the more notable in that France is not participating in the Eurofighter programme and Germany is not involved in that of the Horizon frigate. Italian and British authorities also stress that by associating their programmes within the Franco-German structure they will reduce substantially their management overheads.

327. At the NADs meeting in March 1995, Mr. Roger Freeman, Secretary of State for Procurement, said that the United Kingdom wished to leave the agency responsibility for three other programmes: the Franco-German modular armoured vehicle programme, in which the United Kingdom hoped to take part in the near future, the development of new communications satellites and of new air-to-air missiles.

328. The recent popularity of the Franco-German initiative among European governments is nevertheless a thorny problem for the two countries

102. Defense News, 16th-22nd October 1995, pages 4 and 100.

103. Defense News, 27th March 1995.

which launched this project in the middle of 1993. Indeed, the reluctance of their partners to join a multilateral agency incited France and Germany at the time to go ahead with the creation of a bilateral agency. Several countries then voiced their fears of being excluded and asked to take part with the result that the two original countries have invited their European allies to be associated with the new agency, knowing only too well that broader participation might slow down or even hold up its achievement.

329. France and Germany intend to lose no time in creating a bilateral body capable of awarding contracts, with WEU status, and open to other partners from the moment they accept the principles.

330. However this may be, if France and Germany say they are prepared to accept other countries joining their undertaking, it is on the condition that this in no way detracts from what has been achieved bilaterally.

The legal framework

331. Two approaches have been under study for several months to define the legal framework in which the Franco-German initiative should be set. The first solution, which envisaged a treaty between the two countries, proved to be the least acceptable; indeed, not only did the Elysée Treaty not concern armaments specifically, but in addition it entailed compulsory ratification by parliament regarding which there might be some uncertainty where the Bundestag is concerned. Furthermore, a strictly bilateral approach would close the door to plans to promote a European armaments dimension.

332. The second solution would be to grant the Franco-German structure the status of subsidiary body of the WEU Council.

333. France and Germany apparently prefer this approach, which confirms their political determination to move in the direction of Europe by integrating their project into the only real European body responsible for defence questions, WEU. This alternative however needs the approval of all members of WEAG which is not yet guaranteed. The constitution of a Franco-German structure as a subsidiary body of WEU was well and truly on the agenda of the NADs meeting on 20th October 1995, but this proposal was not endorsed by all European partners.

334. If the European partners refuse to grant WEU status to the Franco-German structure, France and Germany would probably be obliged to proceed on a bilateral basis. As Emile Blanc, Chairman of the WEAG NADs, emphasised, what is important is to lose no time in starting the practical building of Europe in the field of arma-

ments¹⁰⁴. Acting in step with the evolution of perceptions and policies of the thirteen WEAG countries will not give the necessary impetus, this being a slow and progressive process which has to be anticipated rather than followed.

335. At the WEAG NADs meeting on 20th October 1995, France and Germany presented the Franco-German initiative to their European partners. Known as the Franco-German co-operation structure, this initiative was discussed and reservations were made within the group. Considering that it was not for them to decide on this matter, the NADs recommended that the defence ministers of WEAG themselves examine the question at their next meeting on 13th November.

VI. Conclusions

336. Europe's defence industry is at present in a difficult and delicate position. Europe is faced with a challenge. Indeed, the credibility of its security and its defence, included among its aims in the Maastricht Treaty, calls for independent means which inevitably depend on a defence industry which must also be truly European. Defence-related firms in Europe have remained very national. However advanced and productive this industry may be, its characteristics are the dispersion of its European actors and the fragmentation of its capabilities.

337. In addition to the compression of defence budgets, the reduction of the market and keen competition, particularly from the United States, there is also the technological evolution leading to an exponential increase in the cost of new weapons systems. The armaments industry therefore has an excessive production capability. This is particularly true in Europe where each country tends to retain a maximum independent national capability. Unlike the situation in the United States, there is no domestic market in Europe large enough to amortise research and development investment, and even industrialisation, in economic conditions that can be borne by national budgets. Clearly, a domestic European market is the essential foundation for a European industry which is competitive at world level.

338. Survival of the defence industry in Europe depends therefore on joining forces. Stemming from political determination in the sixties, European co-operation has subsequently been extended for economic reasons. Co-operation has been of a variable geometry type, programme by programme. It has led to many programmes, some of which were a great success, particularly in aeronautics, missiles and space; serious difficulties have been encountered elsewhere.

104. Interview of Mr. Emile Blanc in *La Tribune Desfossés*, 23rd August 1995, page 13.

339. Today, these efforts are not enough. The defence industry must be restructured and rationalised, both at national level and in a European framework. To avoid costly and useless redundancy, future alliances depend on a division or sharing of responsibilities, some of which the states consider to be strategic. The tendency is increasingly towards the constitution of transnational firms with access to a wide market and having the benefit of economies of scale. To create the conditions for this major restructuring, the states concerned must agree on the definition of joint requirements so as to create a large enough market. It is also necessary for the states and industries to agree on the necessary sharing of responsibilities with due regard for the dependence this process involves.

340. If no European nation is henceforth any longer in a position to maintain an industry that alone meets its defence requirements, Europe as a whole has the political, technological and economic capabilities required to create a strong and competitive European defence industry. Present co-operation in armaments in the broadest sense must be strengthened and improved.

341. The transfer of the IEPG to WEU allows efforts to improve co-ordination between European countries in armaments matters to be rationalised. It places co-operation in a firmer institutional framework than was the case in the IEPG. It offers possibilities for decisive progress which may be little more than wishful thinking if not followed up by firm political determination.

342. The WEAG structures and its guiding principles again take up those that were defined initially for the IEPG:

- WEAG is a strictly intergovernmental instrument of co-operation. Since armaments concern the exercise of sovereignty, the thirteen states of WEAG decided to keep to a non-binding juridical system with light common structures and the decision-making process respects the principle of unanimity, the limits of which can now be assessed;
- furthermore, WEAG takes a global approach to armaments problems. The harmonisation of requirements, programmes and co-operation, research and development and procurement policy are all considered to be complementary areas of action, the pursuit of which must be achieved in a coherent manner;
- finally, to strengthen the industrial and technological basis of defence in Europe, WEAG is co-operating closely with European industries represented by EDIG. This permanent association of state representatives and industrial circles is an important and original aspect of WEAG.

343. While all in all WEAG is working satisfactorily, certain limits and obstacles are slowing down and even paralysing the work and evolution of WEAG.

344. One of Europe's handicaps is the dispersal and fragmentation of efforts in research, development and technology. Sharing the cost of research and development is increasingly necessary. Yet co-operation is encountering technical and political difficulties. Partnership research presupposes that participants have reached agreement on the technology they are prepared to share. Procedures are lengthy and negotiations extremely slow and difficult between WEAG countries. EUCLID is therefore exposed to competition from bilateral co-operation, which is easier to manage. The impact of co-operation, however, should not be underestimated; indeed, the difficulties raised by harmonisation of requirements at European level will be solved completely only if the process of harmonisation starts upstream at the stage of research. Thus, to relaunch the programme means shortening timescales and paring procedure. Furthermore, the Eurofinder machinery should be strengthened to allow firms direct access to the EUCLID programme. It is also urgent to define priority missions and select corresponding critical technology in order to optimise efforts at the European level as early as possible.

345. The opening of national defence markets to transnational competition allowing a large enough intra-European market to be established is still at the stage of intentions. Governments have only their national tools to regulate the work of the defence industries. WEAG has no power to regulate transfrontier activities. The most important arms-producing countries have varying attitudes towards application of joint measures with regard to competition in particular and industrial and trade policies. Although the common foreign and security policy has a framework, the governments still fail to agree on starting the process and the type of industrial structure they propose to set up in the armaments sector although this is necessary to underpin a common foreign and security policy.

346. Some countries, in particular France, consider that it is urgent to create European firms capable of competing with the United States and seeking agreement on reciprocal access for European and American firms to their respective markets. According to this view, obstacles to industrial concentrations within WEAG's Europe should therefore be removed. Moreover, although at present agreement on a dual-flow system seems excluded, it is necessary not to lay down the law but rather for practice to respect European solidarity on questions of procurement. Other countries such as Germany see this concept as a form of protectionism and are in favour of developing a

real European armaments market. This approach would call for the annulment of Article 223 of the Treaty on European Union which, unless amended to take into account the specificity of the armaments market, would be prejudicial to the defence industry. The United Kingdom sees the process in terms of total competition, profitability of investment and best value for money. Like France and others, it has no intention of relinquishing its national prerogatives in favour of Community rules and regulations. While political authorities are hesitant about Europeanising defence markets in Europe, industrial circles realise that this process should be encouraged.

347. Furthermore, questions linked to the European armaments market cause a division between countries with a large defence industry capability and the others which still claim the application of the principle of fair return. While it is agreed that some diversification of production capabilities should be preserved in Europe insofar as the vital interests of sovereign nations cannot be overlooked, systematic fair return is an economic handicap. It should be replaced by intelligent compensatory measures or economic spin-off, particularly by the policy of retaining existing areas of activity leading to specialisation. In the absence of supranational regulations, it has to be seen whether the temptation to prefer national interests would obstruct efforts to introduce a truly European defence industry and organisation for the joint procurement of military equipment.

348. It is necessary for the WEAG countries, or at least some of them, to express specifically the political will to define their military requirements in a European framework. The harmonisation of requirements would allow longer production runs which would make for economies of scale, subject to a rational industrial organisation. The creation of a single permanent structure capable of coordinating the action of official services responsible for defining operational requirements would consequently be useful. Furthermore, the creation of a committee of chiefs of staff would provide the necessary framework for identifying joint requirements justifying the production and perhaps joint use of equipment. In another respect, states tend to consider the activities of Eurolongterm as being of secondary importance and having a minor impact on the main programmes. A clearer link should be established between WEAG (Panel I) and Eurolongterm in order to avoid overlapping and improve efficiency. The members of Panel I should establish contact and remain in contact with national representatives of Eurolongterm and encourage interaction and the exchange of information.

349. Concerning co-operation, an attempt must be made to reduce unproductive strategies such as

overbidding the specifications imposed by military staff, delays in a programme with the consequent increase in cost, the cumbersome decision-making procedure associated with a larger number of participants, the scattering of know-how, the creation of uncompetitive new industrial centres where compensation comes into play and swells overproduction capacity. Solutions might be found, inter alia, through upstream integration of co-operative procedures.

350. Concerning the European Armaments Agency, the outcome of the meeting of the NADs on 20th October 1995 proved to be negative. While the latter recognised the considerable progress made on the charter of the Western European Armaments Organisation and the memorandum of understanding, the NADs failed to reach agreement on the founding act of the organisation. The obstacles raised in the report of the ad hoc group on the European Armaments Agency submitted to the NADs introduced even more insurmountable difficulties. The United Kingdom refuses any mention of a European defence industry and technology base (DITB) and France is holding up regulations on taxes. Divergencies are even evident on the division of work and procurement procedures. It would have been very surprising if the NADs had reached agreement on these questions. The negative result allows note to be taken of the failure of a system associating thirteen countries in a strictly intergovernmental structure. Setting such high requirements and wishing to resolve difficulties which are at present insoluble before starting the process of creating a European Armaments Agency may result in failure and immobility. The question must necessarily be asked at political level: does Europe want a European armaments policy? It is perhaps now time to envisage another course associating countries which wish to build Europe in the areas of research and development, production, industrialisation and the procurement of military equipment.

351. It would be more efficient and more realistic to plan a European Armaments Agency as a variable geometry structure grouping all the WEAG countries, but allowing those which have the political resolve to accelerate the process of Europeanisation.

352. The central core today is constituted by thirteen NADs under the authority of thirteen defence ministers. Ten of the thirteen countries in question have the power of subsidiarity. It might be thought that, for any armaments activity, a certain number of general rules should be respected on which it should be possible to obtain consensus among the countries. These principles might cover legal, administrative and financial matters, disputes, the way to award contracts, etc.

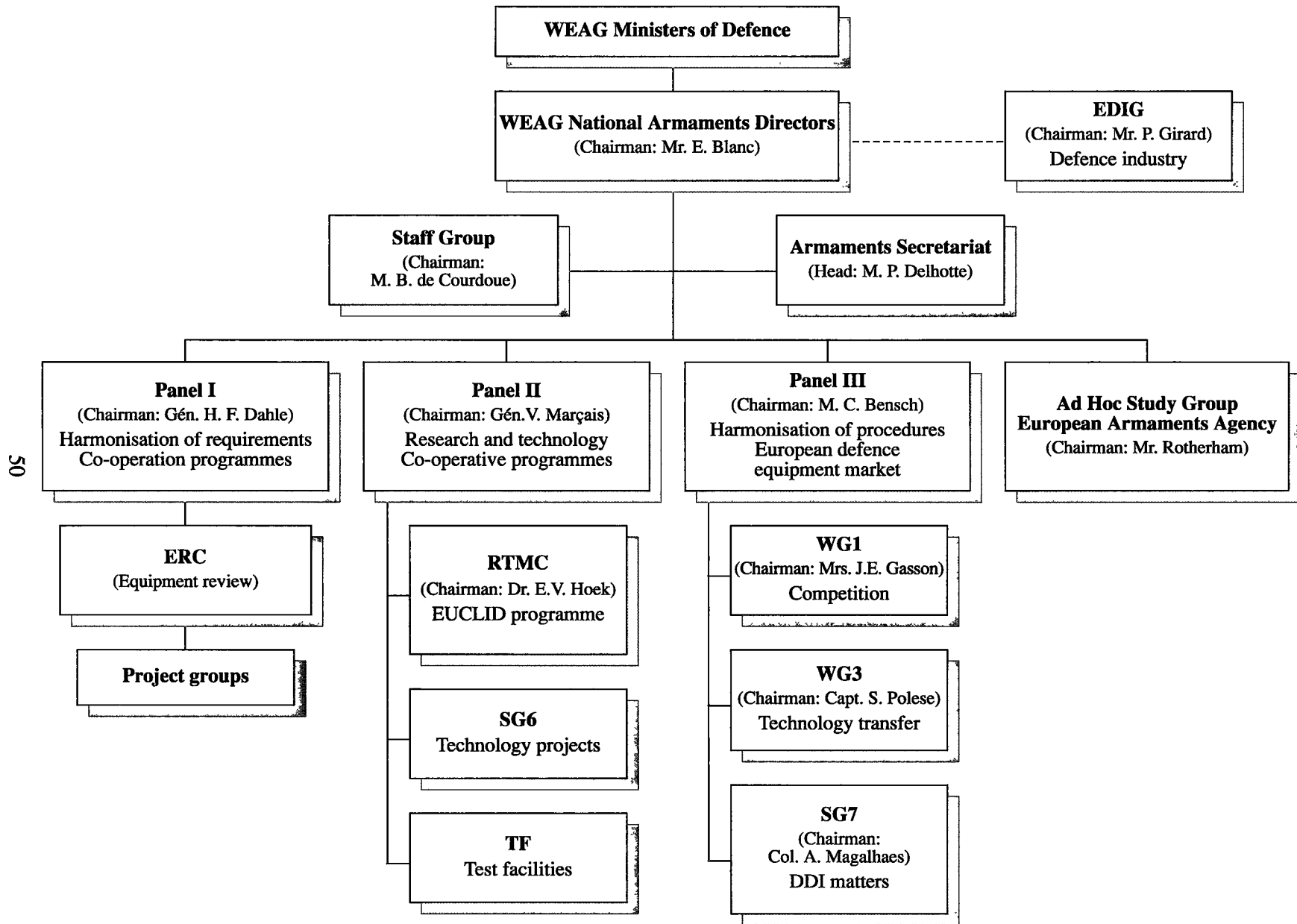
353. Starting with this central core, several frameworks might be envisaged for carrying out activities and programmes with thirteen participants (for example, research and development, the production of rifles, grenades, munitions, etc.) and reduced activities (such as off-the-shelf procurement, procurement procedures) and programmes grouping only those countries wishing to work together and likely to agree on binding joint regulations. Each framework, associating a variable number of countries, should respect the general rules but would also have a number of specific rules.

354. The ten full members of WEU would grant the status of subsidiary body to all or to one or several programmes on a case-by-case basis. Such a decision would not be the responsibility of NADs but of ministers or even of heads of state and of government. Admittedly, this approach would mean a de facto variable geometry armaments Europe which would leave those states that refused to accept the principles of participation outside the active circle; but it would leave room for political rapprochement on questions on which at the present time there is no convergence and therefore no unanimity.

355. Besides this, such an organisation should be planned as part of a larger framework, the European Union. Use should be made of the complementarity between the community and inter-governmental blocs. The European Union, and in particular the Commission, has financial means and a number of resources which could be adapted to benefit the European defence industry.

356. For instance, the European Union might facilitate investment required for defence work in some small countries and would thus help to institute a kind of European solidarity which is essential for working out a proper European armaments policy. Perhaps the Community pillar might also accompany industrial restructuring in Europe; however this may be, reluctant states would have to accept the idea of involving the European Union in certain activities linked with armaments; the position of the Community institutions would also have to change, as seems to be the case in some circles of the European Commission, by taking into account all the implications of the armaments sector and by admitting that the regulation of the single market cannot be applied in its present state to the defence industries.

APPENDIX I

WEAG structure

APPENDIX II

*The European defence industry – an agenda item for the 1996 intergovernmental conference**Executive summary**1. The key issue*

To sustain an effective operational capability, European armed forces require high technology and cost-effective equipment at a price the nations can afford. Europe should not become dependent on third countries in the area of armaments, for political, technical and economic reasons. It is therefore essential to maintain a modern, efficient and competitive defence industry in Europe as an integral part of its security arrangements.

Furthermore, Europe's ability to fund its own defence is dependent on its economic strength to which its defence industry, through exports and denied imports, is a major contributor.

The European defence industry is facing profound changes resulting from a totally new strategic, military and economic environment. Its situation has become very serious in the past few years because of:

- the large reductions in defence budgets in Europe;
- the shrinking world market;
- exacerbated competition from third countries, particularly the United States where, amongst other factors, industry is going through a process of profound restructuring to improve output;
- and vulnerability to artificially undervalued currencies causing short-term market distortion.

The future of the European defence industry is seriously threatened by the fragmentation of the market, the duplication and oversizing of many capabilities. At the same time and in some countries, significant capabilities in technology and production are beginning to disappear.

The industry has already undertaken much restructuring, under commercial pressure, mostly on a national basis. However, in the absence of a minimum common security policy in Europe, transnational industrial restructuring will continue under commercial pressure but may not result in the best solution for Europe.

The prime issue at stake is therefore the survival of a comprehensive and competitive European defence industry and technology base. A strong collective effort to tackle these issues must be made urgently by European governments who are customers in a monopsonistic situation.

The European defence industry is placing real hopes in the 1996 intergovernmental conference in the expectation of significant progress leading to the construction of a common European defence.

2. The way ahead

If the defence industries are to survive to support the future defence and foreign policy of the European governments with the appropriate high quality, technologically advanced and competitively priced products, then a European domestic market of sufficient size should be established. It will provide a foundation upon which the European defence industry may embrace transnational rationalisation to sustain its global competitiveness.

The strength of all other major armament industries is based on a large home market. In the European domestic market, procurement of equipment designed, developed and produced in Europe should be preferred, it being understood that effective reciprocity with third countries should be achieved in case of procurement outside Europe.

The major prerequisite to establishing a European domestic market will be that the member governments harmonise their operational requirements to make common procurements possible. Other sensitive and complicated problems will have to be resolved: harmonisation of acquisition procedures, laws and regulations, standards, security of supply, reciprocity of market access within Europe, work share and industrial return and export controls. The satisfactory resolution of such questions is of vital importance to both governments and industry.

This European domestic market will only be set up and organised if there is genuine co-operation among European states.

A mechanism of European solidarity between nations will have to be established. This European solidarity should aim to achieve an equitable share of work and responsibility among all the European countries as well as a high level of competitiveness.

The restructuring process of the European defence industry is not yet complete and its successful continuation implies the active involvement of the European governments.

A comprehensive European research and technology policy is required to secure the future of the European technological industrial base.

The European industry is facing exacerbated competition on the export market, particularly from the United States industry supported by its government. Equivalent support must be given to the European industry.

Arrangements between nations for export control are required for the short term as well as for the long term. This is a basic condition for the development of European co-operation.

Implementation of the above policy in armament matters will require the preparation of new action plans. A transition between the current situation and this new framework has to be organised.

It is pointed out that Article 223 of the Rome Treaty should be maintained for the moment. This article is not an obstacle to the new framework. It constitutes the only protection which may be used by the governments, if necessary, during the transitional period.

3. Recommendations to be addressed during the 1996 intergovernmental conference

There is an essential requirement for the expression of a European political will to foster the fundamental interest of the defence industries of all European countries and the following recommendations should be addressed during the 1996 intergovernmental conference and implemented by formal decisions of the conference:

(a) The European defence industry and technology base should be recognised as a vital strategic asset and its maintenance as a prerequisite for the establishment of a genuine European security and defence identity.

(b) A European domestic market of sufficient size should be established to provide a foundation upon which the European defence industry may sustain its global competitiveness. This requires that:

- operational requirements harmonisation be taken as the cornerstone to progress, which demands that greater negotiating

authority be given to the military bodies currently tasked for this purpose in Western European Union;

- in parallel, harmonisation of acquisition procedures, laws, regulations and standards for defence procurement must be achieved. A European armaments agency should be set up as soon as possible to manage joint activities;
- a well-structured co-operative framework should be developed with appropriate arrangements between nations, ensuring competitiveness and effective economic return but avoiding unnecessary duplications;
- procurement from European industry is to be the preferred course of action.

(c) The operation of such a European defence equipment market requires a principle of European solidarity which assumes that partner nations accept industrial/technological interdependence and apply transnational budgetary support in pursuance of that aim.

(d) In the specific conditions of this market, true success of the industry restructuring will only be achieved if industrial initiative takes place under an overall policy framework to be agreed by the governments involved, including in particular:

- procurement plans and principles;
- administrative and financial measures to facilitate the process;
- bilateral or multilateral programmes involving the new structure.

(e) The long-term maintenance of the European defence industrial technology base requires investment in "leading edge" technology programmes, by:


- identifying critical technologies to be sustained in Europe;
- reinvigorating collaborative research and technology programmes such as EUCLID;
- promoting demonstrator projects in Europe.

(f) The European industry needs full political, military and financial support from the governments on the world export market.

As far as export control is concerned, the following should apply:

- the supply of defence equipment to European governments as well as the sale of components or subsystems to

- European exporting companies should be unrestricted;
- until a European export policy for sales outside Europe has been agreed and a European authority has been approved and a European authority given the responsibility to apply it, such sales should be controlled by the nation of the exporting company;
 - administrative export procedures should be harmonised as soon as possible.
- (g) In the case of procurement outside Europe, which should be exceptional, the industrial benefits to the European nations should be:
- for co-operative programmes, work-shares in proportion to their national contribution to a programme both in quality and in quantity;
 - for off-the-shelf purchases, either proportionate offsets or effective reciprocal access to the relevant market.

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