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**Armaments cooperation in the future construction
of defence in Europe – reply to the annual report of the Council**

REPORT

**submitted on behalf of the Technological and Aerospace Committee
by Mr O'Hara, Rapporteur**

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*Armaments cooperation in the future construction of defence in Europe
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¹ Adopted unanimously by the Committee.

² *Members of the Committee:* Mr Marshall (Chairman) (Alternate: *Brand*); MM *Atkinson*, *Maass* (Vice-Chairmen); Mrs *Aguiar*, MM *Arnau Navarro*, *Ceder*, *Cherribi*, *Cunliffe* (Alternate: *O'Hara*), *Diana*, *Dolazza*, *Etherington*, *Glesener*, *Jung*, *Kolb*, *Le Guen*, *López Henares*, *Luís*, *Martelli* (Alternate: *Brunetti*), *Monfils*, *Neuwirth*, *Olivo* (Alternate: *Lauricella*), *Polydoros*, *Ramírez Pery*, *Thönnnes*, *Valk*, *Valleix*, *Wodarg*, N...

Associate members: MM *Zielinski*, *Malat*, *Saglam*, *Yürür*, *Kalkan*.

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

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Preface

In preparation for this report, the Rapporteur met or received evidence from the following:

Mr Pierre-Philippe Bacri, Defence Industry, DG III (Industry), European Commission, Brussels

Mr Guy Bommelaer, Deputy Assistant Director in charge of bilateral cooperation, *Direction de la coopération et des affaires industrielles*, DGA, Paris

Mr Jean-Paul Chauvot de Beauchêne, Armaments Adviser, Representative of the French National Armaments Director, NATO, Brussels

Mr Giancarlo Chevallard, Head of unit, Multilateral relations – security aspects, DG IA, European Commission

Mr Pierre Delhotte, Head of the Armaments Secretariat, WEAG, Brussels

Mr Pierre Dumas, Director-General of the WEAO Research Cell, Brussels

Mrs Laure Frier, *Délégation aux Affaires stratégiques* (DAS), Ministry of Defence, Paris

Mr Pierre Gunnarsson, Administrator, Defence Industry, DG III (Industry), European Commission, Brussels

Mrs Caroline Huizing, Assistant Representative of the National Armaments Director, Netherlands Presidency of WEAO, Brussels

Major General (AF) Fotios A. Kikiras, Chairman of National Armaments Directors, WEAG, Athens

ICA Alain Picq, Chairman of WEAG Panel III, DGA, Paris

Mrs Anne Riegert, national expert on secondment, Defence Industry, DG III (Industry), European Commission, Brussels

Mr Philippe Roudier, Chargé de mission for OCCAR, DGA, Paris.

Mr Diego A. Ruiz Palmer, Head, Armaments Planning and Policy Section, Defence Support Division, NATO International Staff, Brussels

Mr Richard Stanton, Secretary Eurocom and Eurolongterm, WEU Council Secretariat, Brussels

Mr Antonio Tanca, Legal Adviser, Security, Disarmament, Non-Proliferation, DG E VIII, EU Council Secretariat, Brussels

Mr Winfried Ventker, First Adviser, Head of the Armaments, Telecommunications and Electronics Secretariat, Representative of the German National Armaments Director, NATO, Brussels

Mr Heinz-Joachim Wolf, Adviser, WEU Chargé de mission in the NATO Industrial Advisory Group (NIAG), the NATO Research and Technology Organisation (RTO) and the partnership groups, NATO, Brussels

Mr Graham Woodcock, Secretary-General, European Defence Industries Group (EDIG), Brussels

Draft Recommendation
on armaments cooperation in the future construction of defence in Europe –
reply to the annual report of the Council

The Assembly,

- (i) Considering that a current priority for Europe is to improve European defence capabilities;
- (ii) Aware that the necessary corollary of a proper European common defence policy is a joint equipment policy directed towards interoperability if not commonality of equipment for European armed forces;
- (iii) Welcoming recent efforts on the part of the defence sectors of the various European countries to boost cooperation and in particular the announcement of the merger between the Aerospatiale Matra and Dasa groups;
- (iv) Stressing that under such circumstances it is becoming increasingly important for European governments to work together on armaments development and procurement;
- (v) Noting with interest the sections of the first part of the 45th annual report of the Council dealing with armaments cooperation, while regretting the sparseness of information about WEAO;
- (vi) Predicting that concentration at European level in the supply side of the defence equipment market will necessitate a similar concentration in articulation of European demand;
- (vii) Considering the welter of existing cooperation structures, the need to avoid the risks of competition and the urgency of fostering opportunities for cooperation and rationalisation,

RECOMMENDS THAT THE COUNCIL

1. Define minimum equipment requirements for Europe to be autonomous in security and defence terms, by evaluating what European nations already have, what they need to produce collectively and what they must procure outside Europe;
2. Take account of the results of WEU's audit of available assets and capabilities in any work on harmonising military requirements undertaken by WEAG, Eurolongterm and other European fora concerned with armaments cooperation;
3. Take early decisions to initiate programmes to address the shortcomings identified so as to be in a position to issue invitations to tender to European firms;
4. Put paid to the tendency shown by national governments to protract unduly or suspend collaborative defence equipment programmes, renege on their earlier political commitments;
5. Strengthen cooperation between WEAG and those services whose responsibility it is to identify long-term military requirements;
6. Inform the Assembly as to the content of the document on harmonisation of future military requirements which the Council took note of on 4 May last, including the recommendations it contains for follow-on work;
7. Inform the Assembly as to the proposals to review Eurolongterm's mandate and the concepts envisaged for improving harmonisation of European nations' future military requirements;
8. Give a more detailed account in its annual report on WEAO development and activities;
9. Inform the Assembly as to plans for strengthening the European armaments partnership and the repercussions thereof for WEAG and WEAO activities;
10. Firm up its political commitment to set up a single European Armaments Agency;

11. Consider how to coordinate WEAG/WEAO's work with that being done in the LoI and OCCAR frameworks;
12. Work out an appropriate task-sharing arrangement and strengthen information exchanges between WEAG/WEAO and the POLARM Group and the European Commission;
13. Take immediate steps towards setting up an institutionalised dialogue between all the armaments cooperation frameworks by scheduling regular monthly meetings;
14. Agree to set up a "Council of the Wise" consisting of high-level independent experts, which, unconstrained by national interests, can put forward impartial and coherent solutions for rationalising existing structures;
15. Keep WEAG's present status as an independent forum for as long as WEAG member nations have no guarantee of being able to exercise in full, in any new institutional structure, the rights they at present enjoy;
16. Commit itself to drawing on WEAG know-how and expertise in developing a European armaments policy in the service of the European Security and Defence Identity and the CFSP;
17. Entreat the defence ministers of the WEAG nations to invite the Czech Republic, Hungary and Poland to become full members of WEAG and WEAO.
18. Give present WEU observers not members of WEAG the opportunity of becoming WEAG full members;
19. Strengthen and broaden the involvement of those WEU associate partner countries that so wish in armaments cooperation-related activities;
20. Envisage, when the time is ripe, forging armaments cooperation links between the European Union and NATO on the basis of WEAG expertise and experience.

Explanatory Memorandum

(submitted by Mr O'Hara, Rapporteur)

I. Introduction

1. Examination of the part armaments cooperation is likely to play in building the future defence Europe can be boiled down to a few key questions: what do we have at present? What aim is ultimately being sought? How can existing cooperation structures be rationalised both from a functional (allocation of responsibilities between the various structures) and institutional (multiple or single cooperation structure) point of view? The Assembly has already devoted several reports to answering such questions which are crucial for the future of defence Europe, the most recent being that on European cooperation on the procurement of defence equipment – lessons drawn from the Symposium, submitted by Mr Lenzer on behalf of the Technological and Aerospace Committee in December 1997, and European armaments restructuring and the role of WEU, submitted by Mr Colvin on behalf of the Defence Committee in December 1998.

2. The present seems a particularly apposite moment to consider progress made in the various European armaments cooperation forums and the place armaments cooperation has in defence Europe. The Declaration on strengthening the Common European Security and Defence Policy adopted by the European Council in Cologne on 3 and 4 June could herald the start of a process. Added to which, the Kosovo crisis has served to concentrate minds on the vital need to develop credible, autonomous military capabilities. Lastly, further attempts are currently being made to bring about the conditions necessary for the establishment of a European Armaments Agency (EAA), given that over seven years have elapsed since the policy proposal for an EAA was first mooted (see paragraph 121). We must draw the lessons of earlier stalemates and identify the opportunities now open to Europeans in a political climate that is intrinsically favourable. Is a single EAA under European Union auspices a possibility? What would its membership be and its legal and institutional framework? What functions would it have? More generally speaking, would integration of the many armaments cooperation structures into the European Union be desirable

and if so what practical institutional adjustment would be required: would it involve a single centralised agency or a federation of agencies under the aegis of the EU?

3. The first part of the present study of armaments cooperation in the future construction of defence Europe focuses on two key questions that will shape the future. These are, first: the variety of cooperation structures that exist, which is unlikely to facilitate attempts at rationalisation and, second, the ways in which their respective areas of responsibility interact, generating at one and the same time both a risk of overlap and opportunities for enhancing cooperation. The second part of our study is given over to an examination of recent steps taken in defence policy and the defence industry towards building defence Europe, followed by an analysis of the work in progress on the European Armaments Agency. Lastly, we consider the various options for the future, post-Cologne, being put forward for European armaments cooperation.

II. Armaments cooperation: types of structures, spheres of action, results and development prospects

1. Different types of armaments cooperation structures: membership prospects for wider cooperation and partnership

(a) Membership

4. The main multilateral armaments cooperation structures have different formats, a fact which has implications for the rationalisation it is hoped to achieve within defence Europe. In WEU, 21 countries meet as Eurolongterm, Eurocom and WELG (see paragraphs 19-24). WEAG and WEAO bring together 13 member countries and 3 observer countries (see paragraphs 25-34) In NATO, work on armaments cooperation is carried out by the Atlantic Alliance's 19 members (see paragraphs 61-66). In the European Union the POLARM and COARM groups (see paragraphs 35-50) are attended by the 15 member states who are also involved in activities sponsored by the European Commission. The Letter of Intent (see paragraphs 51-55) concerning

measures to facilitate the restructuring of the European defence industry (dated 6 July 1998) was signed by six European nations. Lastly, four nations participate in OCCAR (see paragraphs 56-60). Detailed descriptions of all these organisations are given in the paragraphs indicated.

5. The genesis of the overall architecture of European armaments cooperation is a matter for question. The various agencies involved were born of political initiatives by government and their creation was often as a result of stalemate, or the failure of structures set up at an earlier date. Thus a long line of fallings-out and patched-up consensus has caused cooperation structures to multiply. It might almost be said that their rate of formation is inversely proportional to the degree of agreement between European nations. Some represent a need for greater inclusivity, to attract the widest possible involvement and gradually take in all the nations of Europe. Others are based on smaller groups of countries, which thereby hope to achieve more and more substantial progress faster.

6. The functions of Eurolongterm, Eurocom and WELG, which had been run from within the Eurogroup since 1968, were progressively transferred to WEU in 1993-94. At the same time, WEAG replaced the former Independent European Programme Group (IEPG), which from 1976 had brought together the European members of NATO, and whose activities were transferred to WEU in 1993. OCCAR on the other hand was born of a bilateral Franco-German initiative in 1993. In 1996, Italy and the United Kingdom formally applied to join OCCAR once it was set up in November of that year. As a follow-up to the idea mooted in Maastricht in 1991 of strengthening armaments cooperation with a view to the creation of a European Armaments Agency, WEAO was set up in 1997 as the precursor to that Agency. Lastly, the Letter of Intent (LoI) signed in 1998 is the most recent multilateral intergovernmental initiative in this sphere. It represents the culmination of successive initiatives by defence and industry ministers, initially of three European countries (France, Germany and the United Kingdom in December 1997) then five (the three previously mentioned plus Italy and Spain in April 1998) and lastly the present six (Sweden having also signed). OCCAR and the LoI Group appear to derive from the same general approach. They are, as it were, "coalitions of

the willing" between the countries with the most clout as far as armaments manufacture in Europe goes. Should one read into this development a wish among leading heavyweights to make headway more quickly through "enhanced cooperation" or even to create a "hard core"? It is worth remembering that OCCAR nations attempted to bring that organisation under the WEU umbrella as a WEU subsidiary body. The move failed as a result of obstruction by several countries which felt excluded from OCCAR. Hence OCCAR is to acquire legal personality under an international convention signed in 1998 and now in the process of ratification by the four countries involved. Had that integration succeeded, it would doubtless have created a precedent for "enhanced cooperation" over armaments within WEU, but might also have paved the way for better cooperation between WEAO's 13 members and OCCAR's four with a view to the creation of a future European Armaments Agency.

7. If existing armaments cooperation structures are integrated under EU auspices, these differences in their shape and composition will also have to be taken into account.

(b) Prospects for enlargement and partnership

(i) Prospects for enlargement of existing cooperation structures

8. LoI: regarding the Letter of Intent (LoI), no reference is made to the prospect of extending this initiative to other European countries. It is clear nevertheless that since the aim of the LoI was to create the optimum conditions for commercial mergers across Europe's defence and aeronautics industries, the involvement of the greatest number of countries possible would be desirable. However, given that negotiations "at 6" have proved tough enough already, how much more is this likely to be the case at 13, 15 or more! The intention of these six countries is apparently to make as much headway as possible before widening the discussion to include other European states.

9. NATO: no new enlargement is envisaged in the short term. Work on armaments cooperation is carried out by the 19 members. However, Alliance partner countries can now be invited to attend the working groups of the Conference of National Armaments Directors (CNADs) excepting those dealing with R&T, which are regarded

as being too sensitive. If a working group decides to open its doors in this way, the invitation extends to the partner countries as a whole.

10. OCCAR: the four OCCAR nations do not view that organisation as an exclusive club, and it is envisaged that in future membership will be extended to other nations accepting its principles and willing to adopt an efficient approach to participation in a major project. The Netherlands formally declared its interest in October 1997 and applied in April 1999 (see paragraph 59)¹. The Netherlands' application has been accepted although its actual entry to OCCAR is conditional upon its willingness to participate in a programme run by the Organisation. Belgium became an applicant in March 1998.

11. WEU: within WEU the Euro-longterm, Eurocom and WELG groups meet "at 21" but it is not clear what the position would be when and if their functions were integrated into the European Union. WEU observer nations that are full members of the European Union could no doubt, if they so wished, become full members of all three groups. But what of WEU associate members that are full members of ELT, Eurocom and WELG but not EU member states? The same questions arise in relation to WEAG and WEAO. The issue of full participation by WEAO members in armaments cooperation activities and whether these should be transferred to a single European Union framework principally concerns Norway, which has twice voted in a referendum to reject EU entry and Turkey, whose applicant status is continually being deferred.

12. The European Union: within the framework of anticipated EU enlargement, new countries will eventually take part in the work of the POLARM and COARM groups and in European Commission activities. Accession negotiations began in March 1998 with the Czech Republic, Hungary and Poland, and also with Estonia and

Slovenia, which are among applicants regarded as frontrunners. Similarly, Latvia, Lithuania and the Slovak Republic could meet the Copenhagen criteria between now and 2000, which would mean that they too would be allowed to begin accession negotiations. Moreover, all other WEU associate partner countries applying for membership of the European Union (Bulgaria, Romania) will sooner or later be in a position to join.

(ii) European Armaments Partnership (EAP)

13. On 19 October 1996 in Ostend, the ministers agreed to examine the issue of a European Armaments Partnership (EAP). Non-WEAG European Union member countries could become involved, on a case-by-case basis, as informal observers in the work of the WEAG panels. Some associate partners expressed an interest in being involved in WEAG armaments cooperation activities.

14. In Erfurt, on 18 November 1997, the defence ministers of the 13 WEAG nations agreed to extend those countries' involvement in WEAG. WEU observers are thus able to take part in all WEAG meetings if they so wish. As far as associate partners are concerned, WEAG panels and their sub-groups decide in respect of each agenda item whether partnership is open to them. Where appropriate, associate partners may be invited to participate in National Armaments Directors' (NADs) and ministerial meetings. If it is decided that an observer or associate partner is to take part in a specific armaments project, the nation concerned is involved in the project on the same basis as WEU full members, including contribution of an appropriate financial share².

15. In 1998, two significant steps forward were taken in enhancing European Armaments Partnership. A Memorandum of Understanding (MoU) concerning the mutual use of government test facilities was drafted by the 13 WEAG countries and Finland and Sweden, to facilitate access to and more effective use of such facilities. In terms of participation in research and technology programmes, WEAG defence ministers signed an MoU known as SOCRATE (System of Cooperation for Research and Technology in Europe) which made it possible for participation in such programmes to be extended in the first instance to Finland and Sweden with the

¹ The Convention whereby legal personality is conferred upon OCCAR, which was signed by the four Defence Ministers in Farnborough on 9 September 1998, contains one important innovation: the introduction of flexible decision-making machinery, which takes account, in line with specific rules, of the influence of the various states in OCCAR. With OCCAR enlargement in view, this should make it possible to preserve the main European armaments producer countries' stake in the organisation.

² See Erfurt Declaration, paragraph 40.

possibility of a further extension to other countries such as Austria. Both MoUs were signed in Rome on 16 November 1998 by the 13 WEAG defence ministers and the defence ministers of Finland and Sweden.

16. Since then the Czech Republic, Hungary and Poland have become members of NATO, and subsequently WEU associate members. At their meeting in Rome in November 1998, the ministers of the WEAG countries had already considered the need to explore this new relationship and tasked the NADs to examine the issue further and propose a possible WEAG position for consideration. In addition, at their spring 1999 meeting in Athens, the NADs announced that were in favour, in principle, of accession by WEU observers and associate members to the status of WEAG full member. They tasked the Staff Group to examine this issue further and put forward a WEAG position at the autumn meeting with a view to a decision by WEAG ministers in November.

17. Therefore, it can be expected that at their meeting in November, WEAG defence ministers will agree on a revision of the arrangements for the European Armaments Partnership decided in 1997 so as to:

- enable the three new WEU associate members to participate in WEAG activities;
- open up the possibility for present WEU observers who are not members of WEAG to become full members.

The accession of those nations to WEAG full membership would essentially require their acceptance of the WEAG³ *acquis*, namely:

- agreed WEAG objectives;
- agreed WEAG principles, including the six key principles⁴ agreed for the transfer of IEPG functions to WEU;

³ WEAG is made up of three Panels: Panel I – Joint Programmes and Equipment; Panel II – Research and Technology; Panel III – Procedures and Economic Matters (see paragraphs 25-27).

⁴ Those principles essentially state that: the 13 nations are entitled to participate fully and with the same rights and responsibilities in any European armaments cooperation forum; there must be a single body for European armaments cooperation; armaments cooperation

- the IEPG 1990 Policy Document;
- the Panel I Equipment Review Process (see paragraph 25);
- the EUCLID, THALES and SOCRATE MoUs (see paragraphs 31-34);
- Panel II specific procedures such as Eurofinder (see paragraph 33);
- the Test Facilities MoU (see paragraph 34);
- Panel III documents for implementing the European Defence Equipment Market (EDEM) (see paragraph 27);
- the aim of establishing a European Armaments Agency;
- WEAG's relationship with the NATO CNAD;
- WEAG's relationship with the EU;
- the WEAO Charter and MoU;
- sections on armaments cooperation in WEU ministerial Declarations.

Accession would also require their participation in the WEAG operational budget.

18. Although the multiplicity of European frameworks for cooperation threatens to create an obstacle to strengthening armaments cooperation in defence Europe, the prospects of wider cooperation and partnership must inevitably facilitate rationalisation. The choice between the widest possible participation and flexible involvement with the possibility of enhanced cooperation will be a crucial one for the future.

2. Armaments cooperation structures: fields of action, work and prospects

(a) Activities and achievements

Eurocom, WELG, Eurolongterm

19. Eurocom promotes interoperability between tactical communications systems of the member countries' land forces, at the direction of defence ministers. Its subsidiary aim is to exploit

activities should be managed by the National Armaments Directors of the 13 nations, who will be accountable to their countries' defence ministers; the existing links with EDIG and NATO are to be maintained.

opportunities for interdependence in systems and equipment development and production, thereby making the best use of national resources. Consequently, Eurocom has promoted communications interoperability by agreeing the operational requirements, system parameters and test specifications recorded in some baseline documents.

20. The Western European Logistics Group (WELG) fosters closer cooperation among member nations over logistic support for their armed forces, also at the direction of defence ministers. It does so by coordinating, rationalising and standardising member nations' logistic support capabilities and assets wherever appropriate. WELG has produced documentation and agreements that are useful (e.g. the Communications-Electronics Battle-Damage Repair and Prevention Manual in 1997, a Joint Logistic Support Concept for the WEU, a Mutual Emergency Supply and Support Memorandum of Understanding, covering support for air forces, signed by most nations). Less tangible, but nevertheless important, WELG's work has made it possible to achieve greater mutual understanding of member nations' logistic situations, policies and structures and it has had a measure of influence as a group within NATO, thus supporting the achievement of a European Security and Defence Identity (ESDI).

21. Of the three groups, Eurolongterm is of particular importance in terms of armaments cooperation between European nations. The aims of Eurolongterm are to promote effective long-term military planning and to establish a firmer base for international cooperation in the field of defence equipment, at the direction of defence ministers. ELT develops planning concepts and thence mission-needs documents to be used for national planning. Eurolongterm is made up of a Steering Group and three sub-groups, dealing with Land, Air and Sea matters, which meet twice a year. It has no permanent staff and holds only two sessions per year.

22. ELT has completed the Eurolongterm Study on Multinational Task-sharing within the Petersberg Mission Spectrum (MNTS Study), initiated by the CHODs and subsequently approved by the Permanent Council in September 1995. While detailed recommendations were set out in the ELT sub-group annexes, the Steering Group took the liberty of pointing to two generic and four specific joint areas (considered promis-

ing for multinational task-sharing) and of inviting higher authorities to commission further detailed work on these areas. ELT is still awaiting further feedback or any follow-up that higher authorities may choose to provide.

23. ELT is not structured to undertake detailed or quick-reaction work. A number of measures are envisaged to make it more efficient. Its Terms of Reference are currently being redefined and should be approved in Luxembourg in November. At the end of September 1999, Eurolongterm acquired a permanent Secretariat, the same as was recently created for Eurocom within WEU. If the new Terms of Reference are accepted, the number of meetings it holds per year could be increased to six. An effort is also being made to raise the level of its experts (to that of Colonel for the experts themselves and General in the case of the Chairman of the Steering Group, who could also be based permanently in Brussels). The relationship between WEAG and ELT is to be strengthened. A paper, "Principles and Procedures for the definition, development and acquisition of operational weapons systems for the WEAG nations" is currently being drafted. This unprecedented document constitutes a detailed manual of the links to be maintained between WEAG Panels I and II, industry and ELT.

24. It appears ELT is at a decisive turning-point in its history. The lack of military input, advice or initiative from the Military Delegates Committee (MDC) and the Military Committee (MC) must be assessed as a major deficiency for the functioning and necessary policy generation and coordination of the Eurogroups. This deficiency has remained unresolved since the transfer took place in 1993-94. It is for WEU governments to encourage development of the Eurogroups, especially ELT, by carrying out all the reforms referred to previously. The Permanent Council of WEU could decide that the MDC could be responsible for policy generation and coordination for Eurocom, WELG and Eurolongterm. This would include in particular (a) evaluating the work of those groups; (b) generating tasking and initiatives and/or defining areas of work for these groups in line with WEU concepts and other planning activities to be approved by the CHODs; (c) monitoring the implementation of CHODs' tasking to these groups. The audit of available assets and capabilities for operations carried out by European countries, the results of

which are to be submitted to the Luxembourg WEU ministerial meeting could, for example, serve as a basis for ELT's future work. WEU could become the official centre for harmonising European operational requirements with a subgroup responsible for matching force needs to future military situations, evaluating operational requirements for standardisation and interoperability at the multinational level and proposing common operational specifications for the requisite equipment⁵. Only through a firm political resolve, enunciated at high level, can ELT's role acquire the scope for strengthening armaments cooperation between European countries in any essential way.

WEAG⁶

WEAG operates through 3 panels:

25. Panel I seeks to promote cost-effective cooperative equipment programmes which fulfil WEAG nations' military requirements. To achieve this goal, Panel I makes an annual comparison of WEAG nations' equipment replacement schedules (ERS). When an opportunity for cooperation arises, a group of specialists made up of representatives of the countries involved is set up to standardise the requirements of European headquarters so that collaboration between those countries over the development and production phases can proceed. Panel I monitors and facilitates the work of the specialist groups, reports back to the NADs and puts forward recommendations. Eight projects are currently in hand under Panel I auspices and ten specialist groups are looking at the possibilities of cooperation over other projects. The Cooperation Opportunity Consultation Office (COCO) provides information to countries searching for partners for specific projects. It should be noted that although projects are generated from within Panel I, while there is no EAA, they move out of WEAG's orbit as soon as they take shape. This

⁵ "Towards a European weapons procurement process", Keith Hayward, *Chaillot Papers* 27, June 1997, WEU Institute for Security Studies.

⁶ For further information on the origins of WEAG see Assembly Document 1483 "WEAG, the way to be followed" report submitted on behalf of the Technological and Aerospace Committee by Mrs Guirado and Lord Dundee, co-Rapporteurs, November 1995.

prevents coordination of the various European programmes from taking place and the accumulation of a body of experience on how cooperation procedures and machinery work.

26. Panel II deals with Research and Technology and cooperative programmes. The EUCLID programme, involving industry and research institutes, is currently the main instrument for pursuing this task. Some 86 specific Research and Technology projects have been completed in the 13 Common European Priority Areas (CEPA) that are active at present. In the field of science and technology, in 1996 and 1997, WEAG's Panel II carried out research into a global strategy for science and technology issues for the defence market in Europe (Science and Technology Strategy (SCITEC) Study). The industry, as the originator of the SCITEC study has been extensively involved in the exercise. Technical Case Studies are now being carried out with a view to science and technology strategies being put forward in several chosen areas, in particular optical materials and information processing. A Panel II report on the conclusions of those studies is scheduled to be submitted to the NADs in March 2000. Panel II also intends to prepare an annual WEAG research programme (PRAG) as from the same date.

27. Panel III is in charge of procedures and economic matters and the European Defence Equipment Market (EDEM). This panel deals with major aspects of a Common Defence Economics Policy and with armaments cooperation procedures. A reorganisation of Panel III subgroups is under way which will lead to the creation of three sub-committees, one dealing with EDEM on demand rationalisation, a second dealing with the Defence Industrial and Technological Base (DITB) on rationalisation of supply and a third on countries with a developing defence industry (DDI).

28. The WEAG Group of National Experts on the Masterplan for the European Armaments Agency is tasked to put forward proposals for principles, policies, rules, regulations and procedures to govern work of the EAA, according to the Masterplan for the European Armaments Agency agreed by the defence ministers on 17 November 1998. Its current work is the subject of a detailed examination in Chapter III of the present report.

29. The European Defence Industries Group which brings together the national associations of WEAG member countries defence industries acts as technical adviser to the WEAG authorities and attends most WEAG Panel meetings as an observer. The missions and objectives assigned to EDIG are:

- to carry out and coordinate all studies on scientific, technical, economic and institutional aspects of any matters of common interest to the European defence industry;
- to give advice and recommendations to European governments on policies and other matters of interest to the European defence industry;
- to seek, on a European scale, appropriate solutions to the problems of the European defence industry;
- to represent all its members, particularly in relations with the Western European Armaments Group, which recognises EDIG as the focus for the views of the European defence industry. Each national industry group has appointed a national representative for EDIG matters.

30. While WEAG documents are approved by the NADs, and in some cases defence ministers, they are not legally binding. Their implementation therefore depends on the political goodwill of each individual WEAG member state. It also suffers from the lack of a permanent structure. The national experts in charge of WEAG's work have limited availability, which prevents them devoting themselves exclusively to the organisation's activities. High-level meetings are poorly attended. What is more, National Armaments Directors have not always and everywhere the same responsibilities and authority in their home countries, a lack of homogeneity that hinders the decision-making process. There is, regrettably, an absence of high-profile political support and lack of interest in WEAG's activities on the part of national authorities and therein lies WEAG's main weakness. More fundamentally, national interests remain to the fore and there continues to be wide disparity between European nations, particularly in terms of the proportion of the defence budget devoted to military equipment and R&D (see paragraph 99).

WEAO

31. A Charter for the Western European Armaments Organisation (WEAO) was agreed by the WEAG defence ministers and adopted by the WEU Council of Ministers in autumn 1996. Under this Charter the Research Cell (RC) as the initial executive body of WEAO, set up in April 1997 as a subsidiary body of WEU, has legal personality and is able to contract for R&T activities handed over by the nations through WEAG's Panel II and its working bodies. The EUCLID programme aims to develop and extend the defence technology base of the governments and industries of the WEAG nations. It also aims to optimise available resources.

32. WEAO member states involved in an R&T project (RTP) produce Implementing Arrangements documents (IA) which are then passed to the Research Cell. The Research Cell's legal personality as a WEU subsidiary body allows it to contract with industries or research institutes. Research and Technology bids put forward by industry are evaluated through the machinery of the Eurofinder Symposia whereby industries meet with Panel II and Common European Priority Areas (CEPA) representatives. Cooperation between government research establishments is facilitated by the THALES (Technology Arrangement for Laboratories for defence European Science) MoU. However, the number of THALES projects has not reached the target of five fixed by the NADs in October 1998. In terms of R&T partnerships, the introduction of the SOCRATE (System of Cooperation for Research and Technology in Europe) measures made it possible to extend access to WEAG-sponsored research projects to Finland and Sweden, which are not members of WEAO, through WEAO-notified contracts.

33. In the first part of the 45th annual report of the Council to the Assembly on the Council's activities (1 January – 30 June 1999)⁷ the activities of the Research Cell are referred to in two paragraphs too succinct to constitute an accurate evaluation of the success or otherwise of the work of this important body and where its future direction lies. We are told nonetheless that in the first six months of 1999 the Research Cell notified eight EUCLID Step 2 contracts to European

⁷ Assembly Document 1661, 20 September 1999.

industry representing a contribution by government of €25 million and an additional industry contribution of €15 million. Since summer 1997, the WEAO Research Cell has awarded a total of 30 research contracts (4 in 1997, 13 in 1998 and 13 in the first ten months of 1999 as well as nine study or service contracts. The Cell forecasts an average annual figure of 15 contracts per year, two-thirds of such projects by way of the Eurofinder procedure⁸ set up by the industry. Annual amounts available under the EUCLID programme are of the order of €65 million (one third being met from funding from the industry). The European industry's response to the Eurofinder 1999 cycle has been encouraging: 22 bids have been received. The Cell plans to create an industrial database. The procedures for awarding contracts have been speeded up. All that remains is to step up funding for WEAG (roughly 2% of European R&D budgets) so that WEAG/WEAO will be the European cooperation forum "par excellence" in this respect⁹.

34. The idea of cross-linking all European defence R&T initiatives is currently taking shape with the possible drafting of a new Memorandum of Understanding – EUROPA (European Undertaking for Research Organisation, Programmes and Activities). This would entail reactivating and rationalising WEAG/WEAO R&D work currently being undertaken under the EUCLID, THALES AND SOCRATE MoUs and that on the shared use of test facilities. It is also planned to involve other fora with R&T responsibilities, such as OCCAR, the LoI Working Group or the forum consisting of the four Directors of Research (France, Germany, the Netherlands and the United Kingdom). Lastly there is scope for greater flexibility in the EUCLID system: with regard to, for example, (a) the absolute right of every country to join the programme of its choosing; (b) an "equal shares" burden-sharing system and (c) provisions covering intellectual property rights which it is known are barely satisfactory to the industry. It is envisaged that

⁸ The Eurofinder mechanism was conceived to enable multinational consortia to submit spontaneous proposals within the framework of the now finely honed EUCLID (European Cooperation for the Long Term in Defence) programme. It operates in parallel with the programme's normal implementation procedures, where the initiative lies with governments.

⁹ See Rome Declaration, paragraph 11.

groups of countries may form partnerships in order to undertake bilateral or multilateral research activities. This idea is meeting with resistance from some WEAG countries, particularly those with a developing defence industry (DDI). However, most R&T activity in Europe is already going on in the context of "closed programmes". The EUROPA MoU, which should come within the WEAO Charter and MoU, at least allowed all WEAG partners the possibility to access the information necessary for their participation in the projects that interested them by virtue of the principle of transparency. The idea of a centralised research fund with sums "ear-marked" nationally for countries' own projects has surfaced once again. The EUROPA Memorandum might also offer a framework for examining future EAA Research and Technology requirements.

EU (POLARM, COARM, Dual-use Goods Group and the European Commission)

35. During the work on the drafting of the Treaty of Rome, signed on 25 March 1957, armaments manufacture and trade were exempted from the rules of the common market. Article 223 has since been included in the different treaties which have succeeded the Rome Treaty¹⁰ (and has become Article 296 in the Treaty on European Union). This article has allowed member states to retain national control over armaments and security matters including matters over which the Community has an exclusive purview, for example customs duties. States have tended to interpret this provision very widely even though it merely gives them the power to invoke exemption of internal market rules for defence-related products. The Community played a very limited part in relation to the defence sector until 1990. Since then, in view of the worsening situation in the defence sector, its intervention on an increased scale came to be seen as necessary. Europe's strategy on defence is the object of serious and wide-ranging examination.

36. The notion of security invoked in Title V of the Maastricht Treaty was sufficiently comprehensive as to encompass armaments issues. Nevertheless it was not until 1995 that the debate became politically charged. On 30 June 1995, an informal group of countries under the joint lead

¹⁰ See Assembly Document 1623, paragraphs 38-40.

ership of the countries holding the EU and WEU presidencies, in conjunction with the country holding the WEAG presidency, produced a study document, proposing options, recommendations and suggestions for the development of a European armaments policy. Since Amsterdam, Article 17.1 (fourth indent) of the Treaty on European Union (TEU) explicitly provides that "the progressive framing of a defence policy will be supported, as Member States consider appropriate, by cooperation between them in the field of armaments".

37. The Ad Hoc European Armaments Policy Group (POLARM) created in 1995 works directly to the Committee of Permanent Representatives (COREPER). The group meets three times during any one presidency, i.e. six times a year. It is made up of foreign ministry representatives who are usually accompanied by defence ministry experts. Its initial mandate sets out three precise tasks, namely to:

- analyse the report drafted by the informal Group of Experts responsible for studying the options for a European armaments policy;
- identify the points in the report which warrant further examination within the European Union framework; and
- make recommendations for further action within the Community framework or within the framework of Title V of the TEU and, as appropriate, put forward a list of specific measures without prejudice to the Commission's competence under the Treaty on the European Community.

38. The POLARM Group submitted its first interim report on its activities to COREPER at a meeting held on 19 June 1996. Following that meeting it considered several specific issues. Regarding definition of the specific characteristics of the defence-related sector, the group drafted an agreed text on 22 November 1996. It also considered a draft common position, submitted by the Commission and, in particular, the following three points:

- the possibility of simplifying controls over intra-Community arms transfers (and transfers of other defence-related products). Discussions on this subject

are making progress. The Commission is preparing a legal position on intra-Community transfers for POLARM's attention;

- open public tendering in defence sectors. Discussions are continuing on this issue without an agreed text having been reached at present.
- the area of "supply guarantees"¹¹.

39. Since 1995, POLARM's work has been deadlocked through lack of consensus. There is a fundamental difference of approach between those who advocate retaining cooperation policy in its present form and those in favour of the gradual introduction of a European armaments policy. There are also differences in attitude between those who support a preponderant role for governments and government control and those who want to allow the defence industry greater freedom of initiative through the elimination of all barriers to competition. The draft common position has been on the agenda since 1997. Article 1 recognises the particular characteristics of the defence sector while Article 2 takes the view that development of an effective European armaments policy implies the use of instruments that are the province both of the CFSP and the Community framework. Article 5 proposes the adoption at the earliest possible opportunity of appropriate measures, as follows, in relation to:

(a) movement of goods: a simplified system that can be applied to all intra-Community transfers where export and re-export guarantees are involved, together with monitoring and control machinery; principles, rules and enforcement machinery for transparency and non-discrimination in procurement, based on existing Community rules governing public contracts;

(b) customs regulations: the Council would undertake to draw up a common list of goods that might be exempted from the common customs tariff, taking account of member states' defence requirements and

¹¹ It is up to nations to ascertain (particularly when it comes to the setting up of a Transnational Defence Company) that all the necessary conditions allowing them to take delivery of the defence goods and services they require to fulfil their military engagements are maintained. See also paragraph 52.

the advantages to be gained by fostering the development of a European armaments policy.

40. Work was done on the common position under the British, Austrian and German Presidencies but to be adopted it requires unanimity. This is so far not forthcoming. Under the Finnish Presidency a new submission of a text relatively close to that of the original common position was envisaged, with the hope of a possible consensus being reached after Cologne. The Finnish Presidency, which is very anxious to achieve that consensus may even call for high-level political consultations to make progress. The present unprecedented political resolve within POLARM to make cooperation work is counterbalanced by continuing administrative opposition and sectoral vested interests. In the event of its being adopted by the Council, the common position could have very considerable political importance. It would give a clear signal to the European defence industry with regard to the major new role states were ready to see the European Union assume in defining a European armaments policy. The Union would become a highly visible defence-industry interlocutor. The adoption of the document could also have legal repercussions and provide yet further justification for restrictive interpretation of Article 296 of the Treaty on European Union (see paragraph 35).

41. The Conventional Arms Exports Working Group (COARM) is an *ad hoc* group set up when the Maastricht Treaty came into force, and answerable to COREPER. This group also meets three times during any one presidency, i.e. six times a year. It is made up of foreign ministry representatives who are usually accompanied by defence ministry experts. The work of COARM relates to harmonisation of export policies to third countries based on the overall framework of the eight criteria¹² defined in Luxembourg (29 June 1991) and Lisbon (26 and 27 June 1992). Export decisions are based on these criteria, the ultimate aim of which is a harmonised joint approach to arms export policy. The Group's objective is to agree common practices for all EU countries. The application of such principles remains the responsibility of the individual nations. COARM is the originator of a side document on

intra-Community arms transfers¹³ (although it is applied rarely or not at all by the member states, which frequently prefer to implement their own national legislation). In June 1998, after a study carried out by COARM, the EU Council adopted a Code of Conduct on Arms Exports, laying down eight criteria that were to apply. The Code seeks to strengthen joint export criteria, and through consultation machinery to reduce divergence in national export decisions. It contains the agreed practice on the implementation of the Code of Conduct. This latter makes reference to a list of products, now almost finalised, to which the criteria laid down in the Code of Conduct are to apply. Discussions are continuing over certain products to decide whether they are to be included or not in the list (for example some products whose use is not exclusively military, such as anti-riot equipment).

42. Overall, the results of COARM's work have been positive and have led to agreement on common export criteria for an agreed list of products and regular consultations over the practices agreed. Its work is now mainly focusing on arriving at a definition of an "essentially identical transaction" and on technical details such as arrangements for notifying refusal to export from one member state to another. The philosophy of the group remains the common minimum consensus. There is a clear parallel between the work of COARM and the LoI Group dealing with export procedures. It would be interesting if the LoI Group were to pass on the results of its own work to the COARM group.

43. As far as control of exports of dual-use goods and technologies is concerned, an *ad hoc* "dual-use" group exists. In December 1994, on a proposal from the Commission, the Council adopted a system of control based on a regulation underpinned by Article 133 of the Treaty on European Union (dealing with common commercial policy, see also paragraph 48) and a joint measure under the CFSP framework. This "trans-pillar"¹⁴ system which came into force in 1995 provides an interesting compromise solution. Member states use joint measures to iden-

¹³ See paragraph 48.

¹⁴ Trans-pillar system: one whose implementation depends on both the common provisions of the first (so-called Community) pillar and the provisions of the second (intergovernmental) pillar.

¹² Assembly Document 1623, paragraph 46.

tify the list of products concerned while the export control mechanism itself is covered by the common provisions. According to two judgments of the European Court of Justice¹⁵ handed down in 1997, dual-use products fall within the sphere of application of the Common Commercial Policy and are not limited by Article 296 of the Treaty on European Union, barring specific exceptions. These decisions therefore strengthen the Commission's hand. However some member states are reluctant to countenance this, even if the judgments of the Court of Justice leave them little room for manoeuvre. This issue is politically very sensitive .

44. Within the first pillar, the Commission has an exclusive right of proposal. Within the second pillar, that of the Common Foreign and Security Policy (CFSP) where the procedures of intergovernmental cooperation apply, the Commission only has full associated partner status. It takes part in the debates, can put forward amendments and is not alone in being able to put forward proposals. It is seeking to encourage mergers between industrial players and to prepare suitable legislative frameworks for such mergers. Legislative proposals within the framework of the common provisions relate principally to:

- setting up an internal armaments market and strengthening the technological base,
- simplifying intra-Community transfers and
- applying competitive tendering procedures to public contracts for defence goods (allowing a reasonable amount of flexibility so as to take account of the special circumstances of the defence sector, particularly requirements relating to secrecy and security of supply).

Clearly the application of competition policy to the defence goods sector is one of the most politically sensitive and technically complex of the proposals advanced by the Commission. The Commission is proposing specifically that two measures taking account of the specificities of the defence sector should be applied: the regulation on control over mergers and an extension of

¹⁵ C-70/64 and C-83/94

Community control over state aid to the defence sector of industry.

45. Another important aspect dealt with by the Commission under the CRDP is Technology Research and Development. In view of the increasing number of dual-use technologies, the Commission could help improve the defence technological base and defence industry competitiveness. It could use the structural funds to assist the defence industry in restructuring at regional level.

46. Lastly, in the framework of its industrial policy, it could apply its experience in standardisation and technical harmonisation to promote the use of common industrial standards in programmes for defence goods.

47. In January 1996, the Commission published communication (COM (96) 10 final) on "The challenges facing the European defence-related industry - contribution for action at European level", setting down the broad guidelines for EU action. The strategy outlined in this document was approved by the European Parliament which adopted a resolution in spring 1997 in support of the Commission's view. In September 1997 the Commission published a further communication on "The European aerospace industry: 'Meeting the Global Challenge' (COM (97) 446 final) and, in December 1997, yet a third communication was published on "Implementing European Union strategy on defence-related industries" (COM (97) 583 final), which was sent to the Council, the European Parliament, the Economic and Social Committee and the Committee for the Regions. It contained a draft common position on the wording of a European armaments policy, to be adopted by the Council pursuant to Article 12¹⁶ of the Treaty on European Union, along with a plan of action intended to foster the emergence of a European defence industry and armaments market. The draft common position is currently being studied by POLARM (see paragraphs 38-40).

¹⁶ TEU, Title V: Provisions on a Common Foreign and Security Policy: Article 12: "The Union shall pursue the objectives set out in Article 11 by: defining the principles of and general guidelines for the common foreign and security policy; deciding on common strategies; adopting joint actions; adopting common positions; strengthening systematic cooperation between Member States in the conduct of policy".

48. The current situation as regards the principal measures advocated by the European Commission's plan of action for defence-related industries is as follows¹⁷:

- Intra-Community transfers: two experts' meetings were held during summer 1999. The Commission's services should soon submit a new working paper which will then be discussed in the Council's POLARM Group. Although this is the area on which there is most agreement in POLARM, there is as yet no agreement on the arrangements for effecting such transfers. The Commission's services have, however, made informal contacts with national experts in this connection. This will be the first subject for consideration if the common position is adopted in COREPER. The work which the LoI Group has in hand on intra-Community transfers and that of the Commission may well prove to be complementary and hence the agreements reached between the six LoI countries may be acceptable to the 15 EU member states. If those agreements were transposed to the EU, they would have the support of the Commission's legislative machinery (but see paragraphs 51-55).
- Status of the European transnational company: this idea is hardly a new one and dates back to the 1970s. A draft directive is pending with the Council because of a stalemate on the arrangements for worker participation. This issue is, however, less of a priority in the defence sector than in other industries. This is because the industry has other means of making arrangements for working together.
- Public contracts for defence goods: it would be possible for the Commission to propose rules to apply to defence sector public contracts on the basis of the existing directive on public contracts. In its plan of action¹⁸ the Com-

mission had suggested adjusting the entire body of rules applying to tenders to the specificities of the defence sector. Defence goods for this purpose were regarded as falling into three categories. Although the Commission services are continuing with the work, there have as yet been no discussions with national experts.

- Technology Research and Development (TRD): notwithstanding EUCLID's €70 million annual budget, the Community framework has a four-year budget of €14.7 billion. Given that a third of the research funded through the Community framework is in dual-use areas, the future CRDP could be developed so as to dovetail better with national and European defence technology TRD programmes.
- Standardisation: the study envisaged in the timetable of the plan of action has just been completed. The next step is to identify a uniform set of standards for defence equipment programmes. Such common standards, established to facilitate homogeneity across the market, are a long-term project. Standards laid down in fora such as WEAG and OCCAR will also need to be taken into account.
- Customs duty: re-examination of the Commission's 1988 proposal on temporary suspension of import duty is still pending with the Council.
- Innovation, technology transfer and small and medium-sized businesses: the Commission, through DG XII (science,

goods for armed forces', but not military, use, and therefore subject to the common provisions governing public tenders; (ii) goods for military use by the armed forces, which do not fall into the "highly-sensitive" defence equipment category, to which a fairly flexible body of rules drawing on the same common provisions apply; and (iii) highly sensitive defence equipment which comes within the sphere of application of Article 223/296 of the TEU, which could be exempted from the above rules where there are important reasons linked to security or the protection of a state's essential interests. In the latter case, notification machinery might be envisaged.

¹⁷ Interview with European Commission services.

¹⁸ Plan of action for defence-related industries (European Commission, Part V.3) (COM 97) 583 final, 4 December 1997). A distinction is made between (i)

research and development), is supporting and following action by small and medium-sized business groupings such as the Richelieu Committee¹⁹.

- Competition policy: the aim is to take proper account of the specificities of the defence industry when assessing competition. This effectively means carrying out a political analysis as well as an economic one. In exchange, states would undertake to interpret Article 296 of the TEU (formerly Article 223) as sparingly as possible, applying it only to the most sensitive goods. Some parts of the Commission are opposed to this somewhat differential approach. An opportunity for a change of view will present itself in 2000 when the legislation covering mergers is reviewed. States are anyway tending towards the more sparing interpretation of Article 296, because of budget constraints and the need for cooperation. Even France, traditionally a supporter of a wider interpretation of Article 296, seems to be tempering its policy in this regard²⁰.
- Exports: since 1994, dual-use goods have fallen within the Commission's commercial sphere of responsibility (Article 133 of the TEU). Joint measures were taken pursuant to Article 13²¹ of the TEU. A list of dual-use

¹⁹ The Richelieu Committee is a French national association of small and medium-sized advanced technology businesses, founded in 1989. In 1996 the Richelieu Committee set up the European Federation of Advanced Technology Businesses. Its aims are to represent the interests of high-tech SMBs vis-à-vis governments and assist members in their relations with large companies, particularly within Europe.

²⁰ At the 43rd Le Bourget Air Show, on 19 June 1999, French Prime Minister Lionel Jospin stated that it would be desirable for France and its partners to give thought to developing the provisions of the Treaty of Rome. In particular Article 223, if retained as at present, could slow down the emergence of a real European armaments industry. It was therefore necessary, he maintained, to view the dismantling of barriers to the armaments market with equanimity.

²¹ TEU: Title V: Provisions on a Common Foreign and Security Policy: Article 13.3 second paragraph: "The

goods is published every year. COARM is continuing its work, following the adoption of the Code of Conduct on defence exports in 1998 (see paragraph 41). COARM has virtually reached the stage of finalising a list of relevant goods. A great deal of work has gone into this area.

- Structural funds: the KONVER programme²² is no longer in existence. Regional reconversion measures are continuing and are now included within the wider general structural funds programme²³.
- Principles of market access: this question might be tackled within the framework of commercial transatlantic dialogue if EU and United States industrialists so wish. For the time being the matter has not been raised directly. It is possible that the Commission may initially exclude the American markets within the system but plan for a mutual opening of markets by both Europe and the United States in the longer term.
- Performance measurement: as this exercise was received with some reservation on the part of European industry, work is being directed towards comparison of the practices and procedures that apply in the United States with regard to exports, subsidies, public procurement, tenders etc. Work in this area is in progress.
- Enlargement: a study of the defence industries of certain central European countries has just been carried out at the request of the Commission's DG III and was published last June.

Council shall recommend common strategies to the European Council and implement them, in particular by adopting joint actions and common positions".

²² KONVER: Community programme for the conversion to alternative uses of defence industries in regions that are heavily dependent on defence activities. The programme ran from 1994-97.

²³ The idea, in the long run, of using the structural funds for some kind of overall industrial *juste retour* rather than one confined to the narrower defence industry field was one raised several times during discussions.

49. The Commission cannot make progress in its work on all these points while there are no clear policy instructions from the Council. Under the cover of an arrangement that would satisfy member states there could be a move towards a trans-pillar system such as has been achieved already for dual-use goods (see paragraph 43). This solution is a possible one, although more complicated to implement. It would allow for progress towards the application of common procedures, on a case-by-case basis at first.

50. The last word here goes to Chris Patten, Commissioner for External Relations. In his written replies to MEPs in September 1999, he stressed that once WEU had completed the audit of operational assets available for European operations, the European Commission would be able to contribute, as it should, to the strengthening of industrial and technological support. He added further that:

“we could look at ways of creating a single armament policy in the EU. This could require Community action on opening up defence procurement, competition rules, research programmes, import duties and export controls”²⁴.

Letter of Intent (LoI)

51. The Letter of Intent concerning measures to facilitate the restructuring of the European defence industry signed on 6 July 1998 by the defence ministers of the same five governments (France, Germany, Italy, Spain and the United Kingdom), plus Sweden, sought to encourage the creation and efficient working of transnational defence companies in the defence field. 90% of defence industry reorganisations carried out in Europe over the last ten years took place in those six countries. Improving the way transnational companies operate in the defence sector is therefore an issue that primarily affects them. The LoI set out the aims and principles laid down by governments in several domains: security of supply, export procedures, security of information, Research and Technology (R&T), processing of technical information and harmonisation of operational needs. This document was the start of an ambitious process. Six groups of experts were set up to define common rules to facilitate the creation of transnational companies. On 9 July

1998 the industry ministers of the six countries concerned asked the industry to put forward proposals by the end of October on matters still to be resolved, including structure of capital and shareholders' rights. They approved a joint declaration emphasising that it was primarily the industry's responsibility to set up the necessary structure for a future European integrated aerospace company and declared that they were ready to take the appropriate measures to facilitate restructuring. The ministers also asked the industry to set up the Airbus Single Corporate Entity in 1999.

52. The industry had three main areas of concern: export procedures, security of information and the treatment of technical information. Three further areas were primarily of interest to governments: security of supply, pooling of R&T funding and harmonisation of military requirements. Representatives of the European defence industry are involved in the activities of the LoI Working Groups. With regard to security of supply, the parties undertook to accept mutual interdependence and the possibility of abandoning industrial capacity. To that end, they undertook to examine means of achieving security of supply on the same conditions for each of the participants. In terms of security of information, the parties had to decide on minimum measures to protect classified information. They examined possibilities of harmonisation and relaxation of regulations to facilitate information exchange within the Transnational Defence Company (TDC). With regard to export procedures, the signatory countries of the LoI have agreed to apply their current national laws and regulations on defence exports to third parties, in a spirit of cooperation and greater efficiency. Their aim is to develop common rules and simplify exchanges between them. They hope to reduce and gradually phase out control procedures for transfers between them. In order to make effective use of the amount of resources devoted to defence-related R&T, the parties stated their intention of drawing on the work of existing fora in order to harmonise their R&T programmes. In practice this means:

- maximising the use of dual-use technologies;
- seeking opportunities for cooperation;
- ensuring efficient R&T cost-sharing between the parties; and

²⁴ *Atlantic News*, No. 3134, 1 September 1999.

- access to results under fair and reasonable terms.

With regard to the processing of technical information, the parties will seek to promote harmonisation of laws, regulations and procedures for controlling disclosure and the use of technical information. With regard to harmonisation of military requirements, the governments have carried out an analysis of their military capabilities geared to the spectrum of tasks in which their armed forces are involved. Areas in which harmonisation is considered possible can also be identified from the capacities identified as being of common interest. The parties furthermore plan to identify at an early stage projects considered to be suitable for cooperative research, development and procurement.

53. The Letter of Intent provides for an Executive Committee as its only permanent structure, to be made up of one high-level representative per country who will act as that country's focal point. The Executive Committee coordinates the drafting of arrangements and binding agreements pursuant to the LoI. It sets up working groups as required to carry out the tasks arising from the LoI, defines their remits and coordinates, supervises and evaluates the work of each of those groups. The latter may include industry representatives. The Executive Committee and the working groups are expected to take due account of similar work being carried out in other fora in order to reduce the likelihood of different assessments of identical problems and construct, where possible, a coherent common position. This applies in particular to similar work being done by the industry ministers (Article 2.4 of the LoI).

54. The Letter of Intent also provides a timetable. Arrangements and binding agreements pursuant to the LoI are to be negotiated between July 1998 and June 1999, and finalised and signed between July and December 1999, before being incorporated, as appropriate, in national legislation and regulations.

55. The LoI countries are showing a will to succeed. Industry has been consulted throughout the working groups' activities. The outcome could be an overall cross-country agreement bringing together all of those activities by the end of 1999. The results of the working groups are based on the lowest common denominator of

consensus. However, progress is still possible, including during negotiation of the umbrella agreement. For the few items still outstanding, a Steering Committee at NADs level could be convened. There is a lingering uncertainty over the legal procedure to be followed. Will an MoU be sufficient or will the choice be a treaty with legally binding force? Several groups of experts have identified principles and measures whose application would require monitoring. The matter of whether the LoI should be supported by permanent structures is therefore likely to arise. Could the outcome of the LoI negotiations simply be transferred to other frameworks (EU or WEAG/WEAO) or would use be made of the existing Steering Committee? According to some LoI signatories, as the negotiations were carried out so quickly, not all problems were dealt with and those that were, were not always handled satisfactorily. However all the LoI signatories are agreed that the negotiations were both a step forward and the start of a long-haul process that should continue (see paragraph 48).

Organisation for Joint Armament Cooperation (OCCAR)

56. The four OCCAR member countries (France, Germany, Italy and the United Kingdom, see paragraphs 4, 6 and 10) have drawn up the following aims and principles of cooperation²⁵:

- programmes: obtain greater cost efficiency through new programme management methods, more efficient procedures for letting contracts and integrated industrial project management;
- preparation for the future: coordination of long-term needs under a joint policy for investment in technology;
- procurement: improvement of the European defence industrial and technological base, bringing companies closer together, developing identical rules for competitive tendering;
- industrial cooperation: abandoning an analytical calculation of industrial *juste retour* on a programme-by-programme

²⁵ For further information on the founding of OCCAR and its guiding principles see Assembly Document 1623, (November 1998) paragraphs 31-37.

basis and replacing it with the pursuit of an overall multi-programme/multi-year balance;

- involvement of other partners: possible association of other European countries if all partners are agreed.

Furthermore, each participant undertakes to give preference to the equipment to whose development they have contributed in the OCCAR framework.

57. The majority of programmes currently managed by OCCAR are between France and Germany (Tiger combat helicopter, Milan and Hot anti-tank missiles, Roland missiles, etc.), some are between France and Italy (such as the FSAF – future anti-aircraft systems family), others are trilateral. The Cobra anti-radar battery (France/Germany/United Kingdom) was OCCAR's first non-exclusively Franco-German integrated programme. There are plans to integrate the third-generation anti-tank missile AC3G-MP (France, Germany and the UK with Belgium and the Netherlands), the third-generation AC3G-LP anti-tank missile (Germany) – possibly soon to be amalgamated into the Tiger programme – and the PAAMS air-defence system (France, Italy and the UK). The AC3G-MP is interesting because for the first time non-OCCAR countries are involved. The signing of two memoranda of understanding is envisaged, one on the integration of the programme into OCCAR (France, Germany and the UK) and the other to secure the tie-up with Belgium and the Netherlands, both of which would undertake to comply with OCCAR's rules. There are also plans for the eventual integration of the Polyphem missile (France, Germany and Italy) and the Horizon air-defence frigate (France and Germany minus the UK). Several new programmes could be developed within the OCCAR framework, such as the GTK/MRAV (multi-role armoured vehicle) (Germany and the UK minus France but possibly plus the Netherlands). With regard to the Future Transport Aircraft (FTA) programme (France, Germany, Italy and the UK with Belgium, Portugal, Spain and Turkey), the Board of Supervisors has considered whether it would be appropriate for OCCAR to become the contracting agency for FTA production. No decision has yet been taken.

58. The decision that was taken immediately to integrate some existing programmes serves to

demonstrate a political resolve on the part of the contracting nations quickly to consolidate efforts already under way and their confidence in the present structures as they stand. The programmes were integrated before OCCAR's management procedures were finally approved. Priority was given to setting up an initial set of financial, contractual and internal rules that were consistent and management procedures that would be of practical help to those in charge of the integrated programmes in implementing new methods of management. The implementation of this *corpus* of OCCAR rules and procedures as well to programmes that predated the organisation but are now integrated into it, should produce marked results in terms of cost savings and shorter deadlines. The second priority was to assemble the necessary resources to provide OCCAR with the legal personality it required to allow it to contract and manage staff independently. On 9 September 1998, the four governments involved signed a Convention on the Establishment of the Organisation for Joint Armament Cooperation. The ratification process is still continuing and should conclude early in 2000. Only from the new programmes managed from within the organisation can hard evidence be obtained of whether OCCAR is operating well and of the added value it can bring. As one commentator has observed: "only in the truly new programmes suited to innovative management techniques and where industrial burden-sharing has not been set in stone from the outset, can new ideas be applied; ultimately only they can demonstrate the added value obtained from the organisation"²⁶. Issues such as how to account for industrial return on work subcontracted to non-OCCAR countries have now been resolved. Rules governing security and the management of sensitive information exist although have yet to be implemented in practice. However, a resolution has been found to the important issue of a set of procurement procedures, which is the essential basis for the award of contracts.

59. Another important issue is OCCAR's possible enlargement (see paragraph 10). It is stated in the preamble to the Convention that the OCCAR countries wish to associate other Euro-

²⁶ "OCCAR, mode d'emploi", Marc Prévôt, Director of OCCAR, *Revue de l'Armement*, No. 61, March 1998, page 98.

pean states which accept all the provisions of the Convention. They must also take part in a programme managed by OCCAR. France in particular has argued for a deepening of OCCAR before any enlargement takes place. The Netherlands officially applied to join in April 1999 with a view to taking part in the GTK/MRAV or AC3G-MP programmes. While the four OCCAR states agree to its joining, there is still some uncertainty over the programme in which it is to be involved. Belgium made a formal application in March 1998, with a proposal for taking part in Helios, GTK/MRAV or AC3G-MP, and in January 1999 the Swedish authorities formally expressed interest in joining OCCAR.

60. According to Jean-Yves Helmer²⁷, Head of the Direction Générale de l'Armement (the French Government Procurement Office) "OCCAR is now an important European body in the armaments field. The amounts earmarked by all the countries involved for spending on the seven programmes it manages (Hot, Milan, Roland, Brevel, Tiger, Cobra and FSAF) are in excess of €17.5 billion and the planned integration, shortly to go ahead, of three additional programmes (AC3G/MP, AC3G/LP and VBCI – currently GTK/MRAV without France's participation) will bring the total up to €26.5 billion". Furthermore, General Alberto Zignani, the Italian National Armaments Director and Chairman of OCCAR, addressing the Assembly's Defence and Technological and Aerospace Committees in Rome on 14 October 1998, made the point that "the results obtained to date within the framework of the two initiatives (OCCAR and WEAG) are not opposing initiatives but move towards the same goal: a one and only armaments Europe". It should be noted that the EAA timetable as set out in the Masterplan provides for a compatibility between the EAA and OCCAR (see paragraph 128).

NATO

61. Armaments cooperation between NATO countries is the responsibility of the Conference of National Armaments Directors (CNAD) which meets in plenary session twice a year, chaired by the Secretary-General. The Permanent Chairman

is the Assistant Secretary-General for Defence Support. It brings together senior officials responsible for defence procurement (for NATO countries the same National Armaments Directors (NADs) as sit in WEAG), representatives of the Military Committee and the NATO High Commands in order to review, on a regular basis, the political, economic and technical aspects of equipment development and procurement for NATO forces. A Research and Technology Committee, which is an integrated NATO body responsible for defence-related technology research and development, provides advice and assistance to the Conference of National Armaments Directors and the Military Committee. The aim of NATO's armament structures is to ensure interoperability of equipment and to facilitate satisfaction of the minimum requirements for common systems to carry out, when member countries so wish, NATO C3I (command, control, communication and intelligence) functions, which are essential for transatlantic cooperation and coordination of national procurement. Representatives of the National Armaments Directors (NADREPs) within the national delegations of member countries undertake the routine tasks of the CNAD and direct the work of its groups. The NATO armaments groups for air (NAFAG), land (NAAG) and sea (NNAG) forces²⁸ support the work of the Conference to which they are answerable. Some 250 groups, subgroups and working groups answer to the three Main Armaments Working Groups (NAAG, NAFAG and NNAG, and the NATO Group on Acquisitions Practice (AC/313). This last group is WEAG Panel III's opposite number. The NATO Industrial Advisory Group (NIAG) is fully integrated into the system unlike the relationship of EDIG to WEAG. There are also *ad hoc* Special Project Groups (such as the Alliance Ground Surveillance Steering Committee) and Partnership Groups for codification, quality assurance, safety aspects of transport, storage of military ammunition and explosives, standardisation of materiel and the engineering practices, safety and suitability for service of munitions and explosives. Finally, there is the NATO Conventional Armaments Review Committee (NCARC), originally responsible for the Conventional Armaments Planning System (CAPS)

²⁷ "La DGA: évolutions et perspectives", Jean-Yves Helmer, *Défense Nationale*, No. 10, October 1999, pages 55-67.

²⁸ NAFAG: NATO Airforce Armaments Group; NAAG: NATO Army Armaments Group; NNAG: NATO Naval Armaments Group.

and now in charge of the new AIMS (Armament Information Management System) database, which is also used by WEAG Panel I.

62. The NATO Research and Technology Organisation (RTO) is responsible for integrating the direction and coordination of NATO defence research and technology, conducting and promoting cooperative research and technical information exchange, and developing a long-term NATO Research and Technology strategy to maintain a leading edge in meeting Alliance military needs. It is supported by an extensive network of national experts. The RTO is answerable both to the Military Committee and to the Conference of National Armaments Directors. It comprises a Research and Technology Board (RTB) and a Research and Technology Agency (RTA) with its headquarters at Neuilly-sur-Seine (France). The range of R&T activities is covered by six panels made up of national representatives. The panels maintain links with military users and other NATO bodies. The scientific and technical work of the RTO is carried out by Technical Teams created for a specific duration. The teams organise workshops, symposia, field trials, lecture series and training courses.

63. Since 1993 the CNAD has been directing its work towards key sectors such as harmonisation of military requirements on an Alliance-wide basis, promotion of essential battlefield interoperability, the pursuit of identified cooperative opportunities, the promotion of improved transatlantic cooperation and the development of critical defence technologies. In 1994 the CNAD agreed a series of practical cooperation measures with WEAG.

64. NATO has a Logistics, Armaments and Resources Division, which was established in 1996 as a part of the International Military Staff. This is responsible for the development and assessment of NATO military policy and procedures in the area of manpower, resources, military budgets, infrastructure, armaments planning, cooperation and standardisation. Within the International Secretariat the Division of Defence Support has responsibility for all matters relating to research, development, production and procurement of armaments, and for extended air defence.

65. The NATO Armaments Review (NAR) continues and has entered its third phase. After

consideration of NATO's role in armaments from November 1996 to December 1997, a review of assets necessary to allow NATO carry out that role was conducted between end-1997 and May 1999. Implementing measures are to be defined by December 1999. The Review's priorities are the harmonisation of operational needs, the promotion of interoperability on a wide scale and, in the field of procurement, coordinated acquisition of small arms, life-cycle support armaments and R&T. After three years' work, the intention is not to bring about a radical change but rather to set up over the longer term a coordination process which will ultimately produce benefits.

66. NATO provides the principal frame of reference for defining interoperability conditions and standardisation agreements. It also procures joint NATO equipment, coordinates maintenance and support, and has responsibility for the operation of the major joint systems, such as the Air Command and Control System (ACCS) battlefield surveillance system and extended air defence. With regard to standardisation and interoperability of forces and equipment, NATO makes a vital contribution. Standardisation agreements for procedures and systems (STANAGS) are developed and promulgated by NATO's Military Agency for Standardisation, in conjunction with the CNAD. NATO efforts are directed not only towards operational standardisation but also towards harmonising programmes that facilitate industrial cooperation between its members. Could NATO take on a greater role in transatlantic industrial cooperation? As far as Europeans are concerned, NATO's role in the armaments field has its limits. Europeans are not inclined to entrust to NATO joint armaments planning, or definition and control of a transatlantic industrial policy. This is made impossible by the very great imbalances between American and European industries and production runs, together with the absence of any real reciprocity with regard to market access and the export restrictions imposed on cooperative ventures by the United States. The probability is therefore that transatlantic cooperation will continue to develop in *ad hoc* fashion²⁹.

²⁹ "Perspectives de développement de l'industrie européenne de défense: vers une politique commune de l'armement" by Sandra Mezzadri, under the supervision of Professor Mahncke, Mémoire de Diplôme des

(b) Risk of competition and possibilities for cooperation

67. Cooperation is possible in certain areas that are complementary, while in others there is a risk of competition or duplication. This is therefore an area calling for discussion of a clear division of tasks, taking account of the prospect for developing individual cooperation structures. Without identifying all risks of competition or exhausting all potential areas for cooperation between the various existing frameworks, this section of the report focuses on existing cooperation arrangements between WEAG and the EU. Some possible opportunities for inter-institutional exchange are also explored and attention is given to two priority areas: harmonisation of military requirements and R&T. As both are upstream of armaments cooperation, they are currently also the subject of a welter of initiatives, thus increasing the risk of duplication and incoherence. Urgent and serious consideration must be given to the case for further and systematic rationalisation in these two areas.

68. On 16 November 1998, in Rome, WEAG defence ministers reaffirmed WEAG's status as the sole European armaments cooperation forum. The fact they felt the need to do so clearly proves that there are doubts about its singular status. They recognised the need for a more coherent approach with regard to the various armaments-related initiatives taken in Europe at the industrial, governmental and institutional levels. But before one can even begin to contemplate what institutional arrangements might be appropriate, a basic examination is necessary of ways in which the numerous existing cooperation structures interact with one another.

(i) Existing contacts between WEAG and the EU

69. The Declaration adopted by WEU on 22 July 1997 and annexed to the Final Act of the Intergovernmental Conference culminating in the signing of the Amsterdam Treaty on 2 October 1997, includes the following in the range of measures for enhanced cooperation that might be taken forward between the EU and WEU: "cooperation in the field of armaments, as appropriate, within the framework of the Western

European Armaments Group (WEAG) as the European forum for armaments cooperation, the EU and WEU in the context of rationalisation of the European armaments market and the establishment of a European Armaments Agency".

70. In November 1997, European Commission activities accelerated WEAG moves towards closer cooperation with this institution. Its paper on "Implementing European Union strategy on defence-related industries", with its appended action plan, (COM (97) 583 final), made possible arrangements for mutual information and cooperation on common aims. Many of the areas of concern mentioned in the Commission paper corresponded to problems which Panel III had been working on since 1990. To avoid duplication of effort or, worse still, divergence in activities, cooperation arrangements were set up between the European Commission and WEAG Panel III.

71. On 10 May 1999, the Council of the European Union approved the document entitled "Arrangements for enhanced cooperation between the European Union and the Western European Union under the Protocol on Article 17 of the Treaty on European Union". Section F, "Cooperation in the field of armaments, as appropriate", provides for more regular exchanges of informal information, without alteration of their informal character. The WEAG presidency, the EU presidency (presidency of the Ad Hoc European Armaments Policy Group – POLARM) and the European Commission are identified as contact points and the main channels of communication. They are seen as drawing support from the contacts between the General Secretariat of the EU Council and the WEAG "Armaments" Secretariat. With regard to ongoing work on areas of common interest, it is expected that there will be regular reporting by the two presidencies and the Commission. Regular information exchanges are now taking place in relation to POLARM Group and WEAG activities. They are based on exchanges of working documents and on meetings between the EU and European Commission presidencies (in accordance with their respective remits) and the WEAG presidency. It is possible for informal sessions to take place between the POLARM Group and WEAG on matters relating to their work. The arrangement also leaves open the possibility that con-

études européennes approfondies (Diploma thesis) 1997-98, College of Europe, Bruges, pages 37-38.

siderations related to armaments may be addressed by the EU and WEU during defence-related work. In Appendix IV to "Arrangements for enhanced cooperation between the European Union and the Western European Union", paragraph 4 ("Attendance at meetings") mentions the possibility of WEU representatives being invited by the Commission to contribute to discussions at meetings of the Commission's inter-service Armaments Policy Group.

72. Following the Cologne Summit, WEAG's relations with the European Union are set to change over the coming years if only because the EU will become WEAG's partner in dialogue for issues formerly dealt with in the WEU-WEAG framework. These may take on a new dimension if innovative ideas such as the notion of European defence capability criteria are pursued and more intensive work is done on those aspects of the matter in which the EU has already taken an interest. The discussion papers on the future of WEAG (see paragraphs 134-137) raise the possibility of a new political framework for its relations with the EU, which might well give rise to some creative thinking. Is there a way of making use of WEAG's energy and expertise to attain the wider objectives of the new European defence initiative, of encouraging the EU to make better use of what WEAG can do to help it achieve its new ambitions (particularly as regards defence capabilities) and of building bridges between WEAG and the new authorities and structures which will henceforth be taking care of security and defence matters in the EU framework? Can all this be done while at the same time retaining WEAG's institutional set-up and its specific *acquis*, protecting its members' rights and leaving it free to make other changes and improvements necessary to streamline and consolidate its activities?

(ii) Possibilities for cooperation between WEAG and the LoI Group

73. There is also a need to consider possibilities for informal cooperation between the LoI Group and WEAG. The WEAG presidency has made contact with the LoI authorities, but without so far receiving a reply. Article 2.4 of the LoI states clearly that the Executive Committee and its Working Groups will have due regard to similar work being carried out in other fora and

should establish, where possible, a consistent and common position with them. In its reply to Recommendation 634, the Council states that "WEU as such does not play a direct role in the search for solutions to privatisation and rationalisation-related issues. However several sub-groups of WEAG are addressing problems related to the rationalisation of the European defence industry". A reciprocal exchange of information on the general thrust of the work being carried out in the various working groups of the two bodies would appear to be desirable, in the first place between the LoI Executive Committee and the WEAG Steering Committee, and likewise more specialist working relations between the LoI Working Groups and the WEAG Panels.

(iii) Possibilities for cooperation between the LoI Group and the EU

74. In terms of coordinating work carried out in both the LoI Group and the EU, it should be easy by definition to establish a bridge between the LoI Group and POLARM experts since the six LoI signatory states are members of POLARM which meets "at 15" within the EU. It does appear that participant countries want to achieve concrete results through the existing structure before considering any kind of enlargement. However there is a view amongst LoI signatory states that the results obtained on this more limited basis could constitute a firm basis for harmonisation that could be extended to other countries.

75. With regards to exports, the LoI Working Group on export procedures has been working with reference to the Code of Conduct adopted within the EU in June 1998 (see paragraph 41). One possibility might be to convey the agreements ratified by the six LoI countries to COARM to ascertain whether they are acceptable to the other nine EU member states.

76. A first attempt at consultation between the various existing cooperation frameworks (LoI, the EU Council Secretariat and the European Commission, along with OCCAR and WEAG and EDIG) has been made at the initiative of the Commission's DG III. A first informal meeting was held in February 1999. Another is scheduled for the autumn. All fora concerned are agreed on the usefulness of such meetings which in this particular configuration are unprecedented.

(iv) Harmonisation of operational requirements

77. A key question for the future of armaments cooperation in defence Europe remains harmonisation of requirements. Harmonisation of military requirements can lead to opportunities for cooperative research and production and thence to joint military procurement. The development in the European Union of the defence capabilities necessary for effective functioning implies the formation of a Defence Industrial and Technological Base. This will come about through the definition of the minimum requirements to be met in order to provide a basis for Europe's security and autonomy in defence. Such an approach implies the evaluation of what European countries already have, what they need to produce cooperatively and what they must procure outside Europe. The audit in progress in WEU and NATO's research on defence capabilities will no doubt make clear where the deficiencies lie and quick decisions will need to be taken to launch programmes to make good those deficiencies. Hence it is necessary to take account of the results of the audit of available assets and capabilities carried out in WEU and work being done on harmonisation of military requirements within WEAG, ELT and in other European armaments cooperation structures, including the LoI Group.

78. In November 1997 in Erfurt, WEAG defence ministers agreed that clear and timely indications on common requirements should be given to industry. Such an initiative would also encourage European defence industries to form associations with each other to respond to large orders and would promote more effective use of resources for the development of new technologies. There has been no follow-up to those resolutions and the greatest obstacle to progress is still the whole area of harmonisation of joint requirements. There are several reasons for this. In the absence of a common defence policy, this type of harmonisation is limited by the fact that the articulation of military requirements is still a national responsibility. For each nation, harmonisation implies complex cooperation between military users and technical advisers and is difficult enough at national level. It becomes even more complicated when 13 or 15 countries are involved.

79. Within WEAG, Panel I has a remit to provide a permanent link between WEAG and Eurolongterm. ELT has the general aim of promoting effective long-term military planning by establishing a sound conceptual basis for cooperation between WEU nations, with a view to determining military capabilities and equipment requirements beyond a ten-year time-frame. However it is WEAG Panel I that is responsible for the ERS (Equipment Replacement Schedule) designed to review nations' future programmes and explore the potential for further cooperation. It also supervises the work of programme groups set up specifically to try to realise the potential identified in the course of the ERS. The aims of the two groups are therefore entirely complementary. Eurolongterm identifies the operational aspect of joint needs while Panel I's task is to translate those joint needs into equipment programmes. Relations between WEAG and ELT are being strengthened with a document on "Principles and procedures for the definition, development and acquisition of operational weapons systems for the WEAG nations" currently in preparation (see paragraph 23).

80. There has been a proliferation of discussions on harmonisation of needs, often coordinated in practice, as the same experts are involved in the various fora concerned. There is a case for arguing that coordination should also involve WEAO and extend to other fora, to take account in particular of the work on the harmonisation of operational needs now being finalised within the LoI Group, and of NATO activities concerning harmonisation of the military needs of the Alliance. These are conducted via the NADs who attend both the CNAD and WEAG meetings. Preparation for the future is one of the principles that govern OCCAR. This means establishing long-term coordination and a common policy on investment in technology. There is therefore a need for coordination of all fora involved in harmonising military requirements.

81. New factors come into play in identifying which needs should be harmonised, particularly the overriding need for interoperability, definition of essential capabilities, autonomous intelligence, force projection and C3 (command, control and communication) capabilities. This is a fundamental problem. No forum working on harmonisation of military requirements has to date even come

near drawing up an outline planning system. Harmonisation of military requirements is essential for future armaments cooperation. It is a difficult area in that it is highly political. If achievements in this area are disappointing, it is because there is constant friction between the requisite political and overriding national interests. It may well be that there will be no improvement in this area until countries have even less to spend on defence than they do at present and thus have no choice but to cooperate.

(v) *Research and Technology*

82. The new EUROPA Memorandum of Understanding referred to in paragraph 34 is a most timely and highly important initiative towards rationalisation, which the WEAG and WEAO authorities justify in terms of increasing competition in R&T from other fora such as OCCAR and the LoI Group. It will allow WEAG countries more flexibility in awarding research contracts and ensure greater mutual accessibility to information about each other's future R&T projects.

83. Complementarity has been identified between the work of the LoI R&T Working Group and that of WEAO. There is therefore an urgent requirement to take steps to initiate cooperation between the two. The LoI Group report which is in the process of being finalised takes into account work carried out in other fora, particularly WEAG Panel II. A set of principles and a plan of work have been laid down.

Principles defined by the LoI Group include:

- definition of required technologies, possibility of limited projects, preference for a model based on competition, rejection of *juste retour* on an individual project basis, possible use of WEAO as a contracting agency, a common approach to other fora involved with R&T, common principles to be applied with regard to non-LoI countries, financial burden-sharing between industry and government;
- the LoI Group's work also covered the ability to set up demonstrator programmes, identification of transnational defence companies, creation of a database of projects being carried out by signatories, discussion of methods of

funding and management of *juste retour* on the basis of overall activity.

Discussions are soon to start between WEAG and WEAO with a view to practical cooperation. If these fail, there is a danger that a separate new organisation will be set up. The view taken in this report is that WEAG should now start preparing for these discussions in a constructive frame of mind. Success in adopting a joint approach to the shared technologies necessary in future is an upstream activity, as essential and vital as that of harmonising operational requirements. The more issues of common interest are dealt with upstream, the more likely subsequent equipment cooperation is to succeed.

84. In its reply to Recommendation 634, the Council recalled that "coordination between WEAG and the European Commission has commenced in an informal manner. Various technology areas have been discussed, such as materials, satellites, navigation and demining. This exchange of information aims to avoid duplication and achieve synergy to the greatest possible extent. In addition WEAG regularly organises research and technology-related symposia, the last one being held in Athens in December 1998, to which European Union representatives were invited".

85. With regard to Technology Research and Development (TRD), the Commission runs programmes in which a third of the budget is devoted to dual-use technology programmes. Complementarity between research programmes managed by WEAG and the Community should be strengthened to avoid duplication. Informal exploratory contacts initiated in 1995 and 1996 between the Commission's DG XII (science, research and development) and the WEAG authorities have come to nothing. The SCITEC study report recommends that discussions take place between the EU, WEAG and the defence industry to ascertain possible machinery for effective cooperation between civilian and defence research programmes at the European level. SCITEC also recommends setting a timetable for such discussions.

86. NATO has a Research and Technology Committee (AC/323) which is answerable to both the Military Committee and the CNAD. The committees that work to it deal with such areas as the technology of information systems sensors

and electronic devices or applied vehicles technology. Some senior European armaments officials regard WEAG as NATO's European forum as far as armaments cooperation goes, stressing the usefulness of having the choice of cooperation either between European countries and the United States and Canada or simply between European nations. Complementarity would therefore seem to be achieved *de facto* by informal and person to person contact. However, given the mutual interest in the exchange of information about research carried out in NATO, WEAO and WEAG Panel II, consideration might well be given to it being done in a more formalised and regular manner.

87. Having described the activities of all the European armaments cooperation fora, evaluated their work and put forward some suggestions as to where cooperation might take place, we next turn to consider possible options for the future, taking account of progress made in the political and industrial spheres towards defence Europe.

III. Directions for the future: political and economic context, work in progress, post-Cologne scenarios

1. Progress towards defence Europe in the political and industrial spheres

(a) The Cologne Summit – antecedents and follow-up: the process of strengthening the com- mon European Security and Defence Policy (ESDP)

88. At the Franco-German Summit held in Potsdam on 1 December 1998, the two countries concerned stated that they wished to make progress towards the definition of practical action with a view to implementing the CFSP, including a common European defence policy. To that end they agreed to look into ways to secure for the EU the operational capability that it lacked by providing it with its own operational assets (specifically through WEU and European multinational forces such as the European Corps) or NATO assets pursuant to the agreements reached at the North Atlantic Council meeting in Berlin. They pledged to encourage joint industrial or technological projects with a view to the creation of European groupings, specifically in the defence and aeronautics industries.

89. At the Franco-British Summit in Saint Malo on 4 December, the French President and

British Prime Minister also agreed in paragraph 4 of their Joint Declaration on European Defence that "Europe needs strengthened armed forces that can react rapidly to new risks, and which are supported by a strong and competitive European defence industry and technology".

90. In paragraph 2 of the Cologne Declaration on strengthening the common European policy on security and defence, adopted by the European Council on 4 June 1999, the Fifteen confined themselves to acknowledging that, as well as developing more effective European military capabilities there was "a need to undertake sustained efforts to strengthen the industrial and technological defence base" which they wanted to be "competitive and dynamic". They avowed their determination "to foster the restructuring of the European defence industries amongst those states involved" and "to work towards closer and more efficient defence industry collaboration" and "seek further progress in the harmonisation of military requirements and the planning and procurement of arms, as member states consider appropriate". The reference here both to harmonisation of military requirements and arms procurement is encouraging but represents no more than a broad declaration of intent. It is left to the member states to take such measures as they see fit. In the German Presidency Report on strengthening the common European policy on security and defence, the question of armaments cooperation is ignored completely. In Section 3 on "Decision making" it is observed that "further institutional questions may need to be addressed". Are the European armaments cooperation agencies among the issues that are still pending? At Cologne it was agreed that a new report on the common security and defence policy would be submitted to the Helsinki European Council. Are the EU countries ready to put flesh on the Cologne initiatives?

91. President Chirac's plan of action on European defence, which was conveyed to the Finnish Presidency of the EU at the end of July stresses that to make available the European military capabilities required for action implies that an armaments technological and industrial base must effectively be set up. This is to be done by way of definition of the minimum requirements that need to be met to ensure Europe's autonomy in security and defence. The plan refers to a military headquarters and other collective decision-mak-

ing capabilities such as a satellite centre, a military secretariat, an institute for security studies and a fledgling armaments agency. These components will have links and interact with the High Representative, the Policy Planning and Early Warning Unit (PPEWU) and the CFSP components of the Council Secretariat. The procedures for such interaction are to be clarified at a later date. Under consideration also is the introduction of convergence criteria that will offer an effective encouragement to European nations to move towards a common defence. For example, these might relate to the share of the national product allocated to armaments, how funding for research and development is used, equipment procurement, projection capability, staff and the degree to which the armed services have moved towards becoming fully professional.

92. At the Conference of Ambassadors in Paris on 26 August 1999, President Chirac put forward the same points on the subject of defence Europe. France is proposing to its partners that specific and realistic objectives be defined which would constitute real convergence criteria. These could be developed around five broad areas:

- adaptation and wider joint management of existing intelligence, command and transport assets, for instance, with conversion of the European Corps into a European rapid reaction force over the coming year;
- definition of the military capabilities the European Union should be able to draw on collectively when deciding on intervention, force projection and command;
- determination for each of the 15 European Union countries of the level and nature of the military assets it undertakes to make available to the Community if requested to do so;
- with regard to forces' preparation, drafting of joint standards for training and exercises;
- harmonisation of the equipment programming schedules of the 15 countries, a necessary condition for the development of a European armaments industry.

President Chirac has proposed that the EU's future Political and Security Committee, apart from monitoring the CFSP and any crises that may arise, should be asked to make the development of such convergence criteria a priority so that practical progress can be made towards achieving defence Europe, which will be one of the priorities of France's presidency of the European Union in the second half of next year.

93. At the British-Italian Summit in Rome on 19 and 20 July 1999, Mr d'Alema and Mr Blair fielded a proposal to set criteria for improved and strengthened European defence capabilities to be discussed and agreed at the WEU ministerial meeting in Luxembourg and the European Council summit in Helsinki, an approach that would be underpinned by a "road map" for more effective European defence procurement, covering harmonisation of military requirements and collaborative arms procurement. The two countries also undertook to promote defence industry restructuring.

94. At the Franco-Italian summit held in Nîmes on 23 and 24 September 1999, Mr d'Alema stated that he was in agreement, broadly speaking, with President Chirac's plan. However he stressed that, from Italy's point of view, there were still some points to be discussed in greater depth before reaching a common position at the Helsinki Summit on 10 and 11 December. In view of these circumstances, France and Italy did not release a European defence policy joint statement following the Summit³⁰. During President Chirac's official visit to Spain on 5 October, Mr Aznar did not rule out his country taking part if necessary in an enlarged group of "catalyst" countries anxious to move the European defence project forward, but he made reference to his earlier hope of the Fifteen moving forward together³¹.

95. A very widely held view is that the development of a European armaments policy will be the driving force for a European solution on across-the-board rationalisation of the European armaments sector. At the same time "spontaneous" industrial restructuring is interacting with the initiatives taken by governments. This seems to be the direction taken by the LoI Group which

³⁰ *Atlantic News*, No 3142, 29 September 1999.

³¹ *Le Figaro*, 5 October 1999 and *Le Monde*, 6 October 1999.

favours support to signatory states but leaves industry a free hand as regards restructuring *per se*. The thesis that falling defence budgets could prove the most powerful impetus towards industrial reorganisation might be advanced. But the threat that such cuts pose to the policy intentions discussed earlier must not be understated (see paragraphs 96 ff.). It would be perverse to advocate that Europe should have its own credible defence capability without setting aside the means to achieve it.

(b) *Expenditure on defence and industrial restructuring: state of play, issues and outlook*

(i) *European countries' defence budgets and convergence criteria*

96. The WEU countries together spend half as much on procurement as the United States and a third as much on defence research and development³². The French Defence Minister, Alain Richard has remarked that "if all our European partners together allocated the same amounts to defence innovation as our own two countries (France and the United Kingdom) we would make up just half of the US budget in this area. This rough calculation is enough to give a realistic indication that it is possible gradually to bridge this particular technology gap, provided that everyone plays their part and everyone is willing to work together. It is also necessary that we make good choices of equipment. That is one of my most important priorities. I feel that it is absolutely essential to reach agreement with our partners"³³.

97. European countries spend US\$ 140 billion a year on defence, compared with America's US\$ 290 billion, yet possess about 10% of America's capacity to deploy and sustain troops outside the NATO area³⁴. Furthermore, it would appear that the gap in military spending between Americans and Europeans is growing. In the United States a large proportion of the defence budget over the period 2000-2005 will be spent on modernising air force equipment, with the

³² "L'Europe de la défense dans l'Alliance atlantique", François Heisbourg (President of the Geneva Security Policy Centre), *Politique étrangère*, 2/99, page 225.

³³ *Le Monde*, 14 July 1999.

³⁴ Paper by Charles Grant on "European Defence Post-Kosovo", July 1999, quoted in *Defense News*, 2 August 1999.

procurement of Joint Striker Fighters (JSF), increasing the fleet of B-2 bombers, replacing the F-15 aircraft by the F-22 and purchasing 120 C-17 transport aircraft. In contrast, cuts will be made in European defence programmes and, according to the International Institute for Strategic Studies (IISS), present budget plans³⁵ make it unlikely that current commitments can be honoured.

98. Moreover, as is well known, the *aggregate* capacity of all EU members falls short of true operational autonomy in such areas as strategic lift³⁶, and in *ad hoc* coalitions what will be on offer may only be a few pieces – not necessarily interlocking ones – of the European military jigsaw³⁷. Moreover EU member states can muster some 1.9 million troops (500 000 more than the United States), but only a tiny proportion (some 2%) could really be employed in an operation planned by Europeans under European command. In short, François Heisbourg observes, Europe does not have the military resources to underpin a common foreign and security policy³⁸.

99. National interests remain to the fore and there is wide disparity between European nations.

³⁵ IISS Annual Report, published on 21 October 1999, quoted by AFP (*Le Monde*, 23 October 1999). According to AFP, US budgets (the Pentagon's budget combined with a certain sum from the Energy Ministry) come to US\$ 276.2 billion for 1999; amounts of US\$ 280.8 and 300.5 billion are planned for 2000 and 2001 (€262.4 and €285.5 billion). By way of comparison, European countries are spending US\$ 140 billion (€133 billion) on total defence expenditure for 1999. Their combined budgets are almost half that of the United States.

³⁶ Future operations will place greater emphasis on projecting military force rapidly and over long distances. The ability to rapidly deploy, sustain and recover forces is therefore of critical importance if Europeans are to be able to respond quickly to future crises. A mix of sea and airlift are required. Airlift can move lighter forces quickly into theatre while sealift is required to move heavier forces and to sustain deployments. Studies (namely the British *Strategic Defence Review*) have shown that European maritime and air transport forces are inadequate.

³⁷ "European defence: what are the 'convergence criteria'?", Alyson Bailes, *RUSI Journal*, June 1999, pp. 60-65.

³⁸ "L'Europe de la défense dans l'Alliance atlantique", François Heisbourg (President of the Geneva Security Policy Centre), *Politique étrangère*, 2/99, pp. 219-232.

The idea of convergence criteria for a defence Europe is already accepted by many of them and could be confirmed in Helsinki, at the next summit of the European Council on 10 and 11 December. The first question asked by Alyson Bailes, WEU's Political Director, quite rightly is "Converging on what?"³⁹. Her analysis is an illuminating one and is worth quoting at length here. She separates out the practical from the abstract criteria. As she says, it is far from self-evident whether there is a distinct "European model" or "European set of values" in the organisation and conduct of defence, in the same sense in which shared models clearly exist among the Fifteen for free economic markets, open borders or democratic pluralism. The resulting diversity is easy to map in the percentage of GDP devoted to defence: Greece 4.8%, France 2.8%, United Kingdom 2.7%, Germany 1.5%, Spain 1.3%⁴⁰. The amount of (deployable) capability that nations buy for their money varies even more markedly because of different priorities and proportions in spending. The United Kingdom devotes the highest proportions of its state budget to spending on materiel (27.9% as against Belgium's 5.4%), other Europeans generally devote more to personnel-related costs (Spain 69%, Italy 72.9% as against the United Kingdom 37.9%) and to running expenses⁴¹. The nature of the defence inventory – the choice of tasks to be performed and the level of capability sought in each of them – is a major variant: Britain, France, and Sweden have maintained a "classic" land/sea/air ratio of roughly 3:1:1+ but Germany's and Italy's navies are relatively small and Austria's non-existent, while other nations have been pushed into more specialised niches by tradition and geography as well as resource limits. Only Britain and France have aircraft carriers – and, of course, nuclear weapons. Finally, there is the question of compatibility of technical and professional standards and hence of interoperability. In this matter, Bailes refers to a "lack of transparency on technical issues", such as in the data which Europeans have lodged concerning their forces "available" to WEU, or the lack of agree-

ment on common military requirements and material goals.

100. "Behind this" she observes "lie the thorny issues of a common European armaments base and/or common arms procurement agency. Because of the different scales of their defence industrial capacities, EU members (the same applies for WEAG members) have different practical starting points here, compounded by different market orientation and different market experiences in recent years. Western Europe generates 39.9% of world arms sales but 34.4% of this is accounted for by the United Kingdom and France, while Germany deliberately cut its share after reunification from 5% to 1.6%⁴². Factors of industrial size and strength help to explain different national policy stances on such choices as self-supply or off-the-shelf buying, willingness to run collaborative projects on a competitive market basis or insistence on political control and *juste retour*. But they are further overlaid with differences of a more structural or philosophical kind e.g. on state share-holding, on the morally acceptable limits of production, or on a permissive versus a restrictive approach to the transfer of technology and export control"⁴³.

101. Having stressed the "different sizes – different philosophies" of European countries in the field of armament, Ms Bailes rightly states that "the best, most homogeneous European capacities will still be of little use unless their governments agree to deploy them"⁴⁴. As things stand, EU members diverge in their views on the legitimacy of armed force in pursuit of non-vital national interests (including collective EU interests), in their vision of the geographic area across which Europe's vulnerability and Europe's responsibilities are felt, in their willingness to submit their forces to a genuinely multinational structure of command, and in their acceptance of the risk of national casualties. If they have diverging positions (with no possible quantified

⁴² Source: *The Military Balance 1998/99*, IISS Oxford University Press, October 1998.

⁴³ Bailes, *op.cit.*

⁴⁴ Nicole Gnesotto also discusses this question and emphasises the urgent needed to evolve true European diplomacy "... defence is only one part, essential but insufficient of itself, of a diplomatic and strategic expertise yet to be developed ..." in "L'OTAN et l'Europe à la lumière du Kosovo", *Politique étrangère*, 2/99, summer 1999, pages 207-218.

³⁹ Bailes, *op.cit.*

⁴⁰ Estimates for 1998 (current prices) published by NATO on 17 December 1998 (Press release M-DPC-2(98)147).

⁴¹ *Ibid.*

targets to be set for convergence), they also have different sizes and structures of armies and diverging military structures (defence establishment and national decision-taking systems).

102. Nevertheless, Ms Bailes states, convergence is already happening and will continue, as a response to both external and internal motors common to European states. The new environment now actually demands more conscious solidarity and discipline. The implications of European Monetary Union ought to bring an awareness of shared vulnerability and strengthen common responsibility, and hence the basis for a common security response. Financial and economic constraints have pushed individual countries towards rationalisation and specialisation in defence planning and defence industry concentration. Clear, practical targets for convergence should cover: defence spending, structural priorities, and technical and equipment goals. In Bailes's view it would be "wiser to continue setting and enforcing such quantitative targets primarily in NATO not just because NATO already does it ... but also in view of the Pandora's box that would be opened by the EU's starting to standardise any aspect of its members' public spending"⁴⁵.

103. However, an equally legitimate point of view would be that the European Union, which has wide experience in defining and handling convergence instruments should be the most suitable arena for such an exercise to be carried out. Heisbourg⁴⁶ rightly observes that Europe's capability shortfalls have a distinctly European origin. Such an observation carries with it a major political and institutional corollary: since the problem is a European one, it is one that must be resolved through European decision-making processes, both national and collective. For defence matters convergence could come about through the adoption of convergence criteria or areas of convergence which represent a political commitment on the one hand and through undertaking joint actions on the other. Thus the states concerned could decide to achieve convergence within a given time-frame (of the order of 5-10 years) on objective criteria that facilitate scaling down over-blown force structures and modernis-

ing the equipment of more appropriate forces for projection. Heisbourg suggests for example:

- investing in defence (R&D, equipment procurement) to a level that puts fire-power and projection capability at the forefront of the defence effort. The differences in the defence budgets of the ten WEU nations, excluding Luxembourg, in terms of the share allocated to procurement, excluding R&D, was in the ratio of 1:5 in 1997, with the United Kingdom investing most (26%) and Belgium least (5%);
- arriving at agreed manpower figures for the armies of the various European countries, proportionate, for example, to their total population, to avoid over-provision which absorbs financial resources more sensibly spent on certain types of equipment;
- giving thought to committing themselves not to reduce defence spending as compared with present levels expressed as a percentage of GDP in the case of all EU and WEAG nations. The ratio of the difference in the defence budgets of the 15 EU nations as a percentage of GNP in 1998 was 1:4.6 (with the exception of Luxembourg, 0.8%) with Greece the highest spender at 4.6% and Ireland the lowest at 1.0%. The defence commitment of individual countries could also usefully be expressed in terms of *per capita* defence expenditure of the population. The ratio of the difference in *per capita* defence expenditure is at present 1:3.6, with France the highest spender at US\$ 708, Finland the median at US\$ 381 and Spain the lowest at US\$ 196.

104. Heisbourg concludes that whether one is talking about military equipment or convergence of defence policies, time constants are here measured in years or even in decades. However, he points out that just because the effects of decisions taken now will be felt in a future that is more or less distant, does not mean that they can be delayed, quite the reverse⁴⁷. In order to alleviate what he calls the "balkanisation" of supply

⁴⁵ Bailes, *op cit.*

⁴⁶ Heisbourg, *op.cit.*

⁴⁷ *Ibid*, page 231.

and demand in the armaments field⁴⁸, both governments and industry must get their act together now.

(ii) *Recent restructuring and position of the European defence industry with regard to government action*

105. A rapid review of Europe's defence industries, as compared with the industrial horizon in the United States, is telling. Europe has four tank manufacturers, who compete fiercely in foreign markets against General Dynamics Land Systems of the US. Armoured vehicles are manufactured in Europe by 14 different companies (three in the US). Europe has 11 firms building aircraft (US four) and 11 producing missiles (US four). In total, Europe has 750 companies (US 250), notwithstanding the fact that American defence expenditure is twice that of Europe⁴⁹. As former UK Secretary of State for Defence George Robertson points out: "Today there are too many manufacturers chasing too little business. The European defence industry suffers from duplication and overcapacity, and faces a difficult future trying to remain globally competitive (...) it is not for government to prescribe the route that restructuring will take nor the structure to emerge. That is for industry to decide, based upon its own commercial judgement"⁵⁰.

106. Besides the absence of a common procurement authority or philosophy and the lack of a harmonised legal framework, the major challenges for European defence industries include asymmetries in their structures, different kinds of share structures, and limited pressure from the stock market⁵¹. Alongside the efforts of governments to create conditions conducive to mergers in the European defence industry, the industry

itself is in the vanguard of national and transnational consolidation trends⁵².

107. In late December 1998, the new French grouping, Aerospatiale Matra Hautes Technologies (MHT)-Dassault Aviation came into being⁵³. The merger between British Aerospace (BAe) and the General Electric Company (GEC)-Marconi Group was announced on 19 January 1999⁵⁴ and that between the Spanish company Construcciones Aeronáuticas S.A. (Casa) and the German group DaimlerChrysler Aerospace (Dasa) on 11 June 1999⁵⁵.

108. The consolidation of Europe's aerospace and defence industries recently took a decisive step forward. On 14 October 1999 in Strasbourg, in the presence of Mr Jospin and Mr Schröder, shareholders in the French group Aerospatiale Matra (in which the French state has a 47% stake and Lagardère holds 33%) and the German group DaimlerChrysler, which has 100% control of Dasa, announced that the two groups were to merge. The new company, co-chaired by Mr Lagardère and Mr Bischoff, is called the European Aeronautic, Defence and Space Company (EADS). With an expected turnover of more than €21 billion in 1999 and a staff of 89 000, the new grouping will be the world's third largest aerospace, missile and satellite company, behind Boeing and Lockheed. DaimlerChrysler will have a 30% stake with French interests also accounting for 30% (15% for the State, 11% for Lagardère and 4% for other investors) while the remaining 40% will be floated on the Paris, Frankfurt and Amsterdam stock exchanges.

109. The two groups already accounted for some 70% of pooled turnover (for Airbus, Eurocopter and Euromissile⁵⁶), but without the benefit of any shared political will, as embodied in Strasbourg by Mr Jospin and Mr Schröder when the merger was announced, the deal between Aerospatiale Matra and Dasa could not have gone ahead. Mr Schröder emphasised the "global value of this industrial cooperation as a symbol

⁴⁸ *Ibid*, page 222.

⁴⁹ "British Behemoth - Talks on broad European defence industry consolidation develop slowly" by John Hamre, US Deputy Defence Secretary, *Armed Forces Journal International*, June 1999, page 46.

⁵⁰ Address by the former UK Secretary of State for Defence to the Defence and Security Forum, 28 January 1999.

⁵¹ "US eyes only", Sunjin Williams, *Defence Procurement Analysis*, Summer 1999, page 17.

⁵² For further details see Part IV of Assembly Document 1623 "European armaments restructuring", November 1998, paragraphs 69-131.

⁵³ *L'Armement*, No. 64, December 1998, page 45.

⁵⁴ *Le Figaro*, 25 June 1999.

⁵⁵ *Le Monde*, 14 June 1999.

⁵⁶ *Le Figaro*, 15 October 1999.

of Europe's political will"⁵⁷ while Mr Jospin stressed that "our two governments have been steadfast in their will to see this through by encouraging the initiatives of our industries every step of the way towards achieving balanced European consolidation"⁵⁸.

110. The merger of Aerospatiale Matra, Dasa and Casa should help with the process of transforming Airbus Industrie, a European economic interest grouping, into a unified company. Negotiations between the partners will bring the new EADS group (with a majority 75.8% stake in Airbus Industrie) face to face with BAe (with 20%). The Spanish group, Casa, whose merger with Dasa was announced in June 1999, has been asked to resume its negotiations with the new group. If the Spanish company comes in, EADS' share in Airbus will be 80%. The restructuring of Airbus is essential if the European consortium is to have control over its investments, industrial organisation and economic performance. The merger could also help to firm up the project for a new European military transport aircraft (the A400M) which is a real need for most European countries⁵⁹.

111. The Aerospatiale-Dasa merger has shifted the balance in the European defence industry which was still so fragmented just a year ago. Now two major groupings are in the process of being formed: EADS, a bi-national company (with a turnover of €19.8 billion), and BAe-Marconi Electronics Systems, a British consortium (with a turnover of €17.4 billion). There are many ties between the two groupings. In addition to Airbus and the Astrium joint venture being formed in the space sector, BAe is tied in with

⁵⁷ *Le Monde*, 16 October 1999.

⁵⁸ Address by the French Prime Minister, Mr Jospin, in Strasbourg on 14 October 1999.

⁵⁹ Europeans have been discussing for at least 15 years building a European transport aircraft, now called the A400M. Officials estimate that orders for at least 200 such aircraft are needed to keep the price, estimated at more than US\$ 80 million each including development costs, low enough to make it worthwhile. France can probably be counted on to order 50. Germany needs more than 60 but is seriously considering a version of the Russian-Ukrainian Antonov 70. Decisions for or against the A400M by Britain or Germany are of vital importance for Europe's military transport aircraft project. See "Europe's defence dilemma" in the *Financial Times*, 19 October 1999.

the new Franco-German group in the missiles branch (through Matra BAe Dynamics) and in the production of fighter aircraft through its 36% holding in the Eurofighter programme⁶⁰.

112. When it comes to equipment programmes, EADS is at the core of a European restructuring policy. As world leader, it will continue to dominate its American competitors in the helicopter sector, thanks to Eurocopter where Aerospatiale Matra has a 70% stake and Dasa a 30% stake, thus consolidating cooperation. On the military aircraft side, EADS will have a 40% holding in Eurofighter which will be used by the air forces in Germany, Italy, Spain and the United Kingdom. It is also involved – albeit indirectly through Aerospatiale Matra which has a 45.8% stake in Dassault Aviation – in production of the Mirage 2000 and the Rafale. Dasa's holding in Eurofighter is 30% and this may rise to 44% if the Spanish join in⁶¹.

113. The alliance being forged in the missile sector is even more extensive. The creation of EADS has speeded up the formation of another European grouping in this area, bringing together British, French, German and Italian interests around Matra BAe Dynamic which already holds 30% of LFK, Dasa's missile subsidiary. The negotiations with the Italians were completed recently. On 20 October in London, the United Kingdom group BAe, the French group Aerospatiale Matra and the Italian group Finmeccanica officially announced that they were merging their activities. This will lead to the creation of the biggest European company in this sector and the world's second largest group after Raytheon in the United States. With a turnover of €2.5 billion and 10 000 employees, it will be a joint holding split 50/50 between Aerospatiale Matra (with a 75% stake) and BAe (25%) on the one hand and Alenia Marconi Systems (AMS) on the other – the latter being the result of a partnership between Finmeccanica, Marconi Electronic Systems (bought by BAe) and Aerospatiale Matra's missile subsidiary. The new group's ambition is to be prime contractor for all European missile programmes and, in particular, to be a force in the market for long-distance air-to-air missiles (with a range of some 100 km), this being the niche in which most customers are inter-

⁶⁰ *Les Echos*, 15-16 October 1999.

⁶¹ *Le Figaro*, 15 October 1999.

ested today. The British and French are developing the Meteor missile in this key market area, which will probably dictate the structure of the new group. The Italians will be involved from now on and other European countries have also indicated that they wish to make a contribution, such as Sweden where the Saab aerospace company (in which BAe has a 35% stake) will be producing the equipment for the Gripen fighter aircraft. Germany and Spain have expressed similar requirements. The European market for Meteor is estimated at some €3.82 billion. In the competitive race that has started, the UK Ministry of Defence is proposing its BVRAAM (Beyond Visual Range Anti-Aircraft Missile) programme, this being a long-range air-to-air missile to be used on its fighter aircraft (both in its present fleet but above all on its Eurofighters). The Americans are putting a great deal of pressure on the British to opt for the ERAAM Plus missile developed by Raytheon (which has offered to share its development with British companies at half the cost of what has been earmarked in the United Kingdom defence budget for this investment). However, as soon as the merger was announced, the British, French and Italian companies received the backing of the American group, Boeing. Under a transatlantic agreement, which is the first of its kind, Boeing will bring the benefit of its expertise to the Meteor programme by adapting the European missile for American aircraft so that it can gain access to the US market⁶².

114. In the space sector, the Astrium grouping is in the process of being formed. It is intended that it should take over the activities of Matra Marconi Space (MMS) and Dornier and it will include the Italian company Alenia Spazio. EADS is to be the main shareholder of this big European space company. Astrium will be Europe's largest space company, with an income of €2.25 billion and over 8 000 employees in Britain, France and Germany. EADS is to have a 75% share in Astrium and Marconi a share of 25%. With the combined resources of its partners, Astrium will be a fully integrated satellite company, with earth observation, telecommunications, launchers and orbital infrastructure as its

main areas of business⁶³. Furthermore, EADS will have a 23.8% stake in Arianespace and will become the second biggest shareholder in Europe's prestigious launcher programme after the French national space centre (CNES)⁶⁴.

115. The industrial issues relating to such national and transnational mergers in European countries are worth studying in depth. As regards the alliance between Dasa and Aerospatiale Matra, Mr Jospin⁶⁵ has stressed that "In looking after national interests and Europe's general interest, this new group will open the possibility for further consolidation with its partners in the EU whom we invite to join us as soon as possible. This development is fully consistent with the concept of building European defence"⁶⁶.

116. This looks like an invitation to resurrect the plan for a European Aerospace and Defence Company (EADC) thrown off track by the merger between BAe-GEC Marconi. However, it would appear that the European industry is more in favour of restructuring in such a way as to create several EADCs. Many variables have to be taken into account:

- the critical size necessary to be able to compete with American groups;
- the need or otherwise to maintain internal competition within Europe;
- the primacy accorded to economic and political interests and arguments as the basis for future restructuring.

⁶³ "European venture creates Astrium, a space company", *The Wall Street Journal Europe*, 19 October 1999.

⁶⁴ *Le Figaro*, 15 October 1999.

⁶⁵ Address by the French Prime Minister in Strasbourg on 14 October 1999.

⁶⁶ The remaining large European companies that could take part in future deals are Alenia (Italy) and the French groups Dassault and Thomson-CSF (*Financial Times*, 15 October 1999). In the European defence electronics sector, Thomson-CSF is out on a limb following the rebuff of its attempts to unite with GEC. Although it remains the leading European group in this sector, slightly ahead (with a turnover of US\$ 7 billion) of BAe electronics (US\$ 6 billion) and a long way in front of EADS (US\$ 2 billion), it is three times smaller than Raytheon, its American competitor (*Le Monde*, 16 October 1999).

⁶² *Le Monde*, 22 October 1999.

The Americans are aware of the qualitative improvements Europeans have achieved through restructuring. They have just responded to the sequence of realignments in the defence and aeronautics sectors with the unprecedented suggestion that greater flexibility should be introduced into the rules on technology transfer and foreign investment⁶⁷.

117. Last but not least, one should not forget the defence industries of central and eastern Europe, most of which are applicants for accession to the EU. These are the subject of a recent study carried out at the request of the European Commission (DG III – Industry)⁶⁸, dealing with Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia, where concentration and privatisation are apparently also under way.

118. As far as the long-term implications of the process of industrial reorganisation in progress for European states are concerned, it should be noted that this essential reorganisation will profoundly change the relationship between private-sector suppliers and state customers. By way of illustration, the defence sales figure of a group bringing together Dasa and Aerospatiale Matra would be in excess of that for the German defence procurement budget, while the defence sales figure of BAe-GEC is actually higher than the United Kingdom's procurement budget. In other words with two or three major European groups to deal with, it would serve the fifteen EU defence ministers well to achieve a common articulation of their defence requirement⁶⁹.

119. While the responsibility for reshaping the European armaments industry lies with them, industrial leaders are aware of the role of national policies in facilitating the operation of transnational businesses. EDIG has prepared a number of policy papers, one of the most recent being a Memorandum on the European Defence

⁶⁷ The US Deputy Defence Secretary, Mr Hamre, invited the main European and US defence industry chiefs to dinner on 25 October 1999 in order to present America's new strategy on globalisation to them. *Le Monde*, 27 October 1999.

⁶⁸ Study of the defence-related industries in certain central and eastern European countries, Ref: ETD/97/501186, Final report, June 1999, WS/ATKINS International.

⁶⁹ Heisbourg, *op. cit.*, page 230.

Industry, published on 11 February 1999. This summarises the main demands the European industry is making of governments.

It recommends that:

(a) a European defence equipment market should be recognised as essential to provide the foundation upon which the European defence industry can sustain its global competitiveness;

(b) the regulations for this market must be a competitive and effective framework for cooperation that avoids unnecessary duplication of capabilities. The operation of such a European defence equipment market will require that partner nations accept industrial and technological interdependence and apply transnational budgetary measures in support;

(c) to establish a broader market base and to allow European industry to reach the appropriate level of competitiveness, access to national markets should be progressively opened up on a reciprocal and equitable basis. In the European defence market, procurement of equipment designed, developed and produced in Europe should be preferred. In the case of procurements from outside Europe, effective reciprocal access to, and treatment within, the appropriate overseas market should be a prerequisite;

(d) the harmonisation of military operational requirements is made the single most vital action for future progress. In parallel, the harmonisation of specific legal and procurement procedures and standards will also have to be achieved. The European defence industry has the capability to advise and assist in this process;

(e) a comprehensive European Research and Technology policy should be established to secure the future of the European technological industrial base. This should be based on long-term civil and military investment programmes to support the identified "key technologies" that must be sustained in Europe. This could be achieved by implementing a concept of Euro-

pean economic security through an Office for Economic Security, or a specially appointed Advisory Committee, which could build upon the collaborative technology programmes of WEAG and the Framework Programmes of the European Union;

(f) a programme of funded European demonstrator programmes should be launched to build upon the results of the proposed long-term joint civil and military critical technology programme;

(g) the European defence industry should receive the full political and military support of the European governments in its activities in the world defence equipment market. In the particular case of exports controls it is important that:

- the supply of defence equipment to European governments within the European domestic market is unrestricted;
- the supply of equipment and sub-systems to European countries within the European domestic market should be achieved through global export licences;
- the supply of components to European companies within the European domestic market should be unrestricted;
- until a European export policy for sales outside of the domestic market has been agreed, and a European authority has been given the responsibility to apply it, such sales should be controlled by the nation of the exporting company;
- administrative export procedures should be simplified and harmonised as soon as possible.

120. It is in this context of major political change and the present endeavours to achieve industrial rationalisation described above, that work on a European Armaments Agency is progressing and the principal guidelines for the future of armaments cooperation are being shaped.

2. *Work in progress on the EAA and post-Cologne scenarios*

(a) *Work in progress on the EAA: the Masterplan for the European Armaments Agency*

121. The idea of a European Armaments Agency was launched over seven years ago. On 10 December 1991, in the Declaration of WEU member states on the role of WEU and its relations with the EU and the Atlantic Alliance, which is part of the Final Act of the Intergovernmental Conference held in Maastricht, ministers reached agreement on "enhanced cooperation in the field of armaments with the aim of creating a European Armaments Agency".

122. From 1993 to 1995 an Ad Hoc Study Group investigated the role of a European Armaments Agency (EAA) and the preconditions for setting up such an agency in pursuance of the 1991 Maastricht Treaty. The Ad Hoc Study Group (AHSG) was created to review the possibilities of enhancing armaments cooperation with the aim of creating an EAA. Due to the political, legal and economic conditions that surrounded the mission (lack of agreement after more than three years of negotiations on common procurement rules and regulations), the Group did not recommend the setting up of a fully fledged EAA at that time. National Armaments Directors recognised that in fact the preconditions (for example, European regulations governing an armaments market and a coherent European Defence Policy to form the basis for European armaments cooperation) had not yet been met, but that a precursor to the European Armaments Agency with a limited brief in respect of management of Research and Technology activities would be useful.

123. A Charter for the Western European Armaments Organisation (WEAO) was agreed by the WEAG defence ministers and adopted by the WEU Council of Ministers in autumn 1996. Under this Charter, the Research Cell (RC), as the initial Executive Body of the WEAO was set up as a WEU subsidiary body in 1997. Both the Charter and the MoU on the WEAO-RC contain the provision that "when WEAG Ministers decide that the conditions for moving to a full EAA are met, it is the intention that this Agency will become the Executive Body and will absorb the Research Cell" (Article 4.1 of the MoU and Article 12 (b) of the Charter).

124. WEAG is still wrestling with the preliminaries of bringing to fruition the idea of a common European Armaments Agency, in pursuance of the 1991 Maastricht Treaty. WEAG's policy in recent years has been first to create the right kind of conditions and a framework of regulations before setting up a fully fledged EAA, over and above the self-imposed limits of the existing WEAO-RC. While this process was sensible in itself, it proved too slow to keep pace with the rapidly developing problems facing the European armaments market: among them reduced defence budgets, continuing industrial overcapacities and giant industrial mergers in the US fostered by a homogenous market and a strong customer at home.

125. In November 1997, at their Erfurt meeting, WEAG* ministers discussed how progress could be made towards more effective European armaments cooperation using the aim of a European Armaments Agency as a means to better coordinate European efforts. They agreed that a plan, including a timetable, should be developed to guide further steps. The "Masterplan for the European Armaments Agency" was developed in 1998. At their meeting in Rome on 17 November 1998, ministers agreed on the Masterplan as the basis for further development and actions towards the EAA and welcomed the establishment of a Group of National Experts for the performance of studies and further development of the Masterplan. The Group of National Experts was inaugurated on 1 December 1998 and has since embarked upon a series of monthly meetings.

126. The first draft documents produced by the Group were due to be presented and discussed at the October 1999 meeting of the NADs and the November meeting of WEAG ministers. They primarily concern:

- a detailed description of EAA functions;
- principles and policies to govern EAA procurement;
- a generic structure for the EAA;
- a proposal on "pilot projects".

With regard to the way to proceed, it is anticipated that at the NADs and ministers' meetings in autumn 2000, the National Experts Group will be in a position to submit a full range of propos-

als on the principles and lines of conduct governing all EAA functions and a detailed generic structure. The aim is to complete the work of the Group by the autumn of 2001.

(i) Content of the Masterplan

127. The Masterplan for the European Armaments Agency was first submitted to the defence ministers on 17 November 1998. Notwithstanding the fact it was set by the Maastricht Treaty as a political objective, the EAA is not an end in itself. It must provide added value in economic terms by offering services that alleviate the burden on member nations' own administration and organisation. The implementation of a "pilot project"⁷⁰ is considered beneficial in order to build up the Agency and prove its concept. It is envisaged that the EAA will be an organisation separate from the national governments of participant countries, but that it will nonetheless be subject to political control by WEAO nations and/or by participating nations of partnership programmes. The task of defining the scope of the delegation of authority which should reasonably be given to the EAA is addressed in the Masterplan.

128. In the Masterplan the following three main areas of work are identified:

- measures providing for the legal and political framework for the EAA outside WEAG's authority (i.e. mainly EU activities) but with WEAG cooperation and input;
- definition of policies and principles forming the basis for the operation of the agency within WEAG's authority. This means in essence the establishment of acquisition rules (procurement regulations for an EAA - PREAA) and a plan for compatibility of operation between OCCAR and EAA;
- measures providing for the administrative and operative basis for the EAA, to be defined by WEAG comprising, for

⁷⁰ In spring 1999, WEAG Panel I was asked by the NADs to propose collaborative pilot projects for the EAA in accordance with the provisions of the Masterplan. The proposed pilot projects are: the Future Armoured Vehicle, the Light Utility Helicopter and the Unmanned Air Vehicle.

example, the organisational structure and budgetary and personnel issues.

129. The Masterplan's timetable encompasses the following programme of action: preparatory studies and proposals are to be developed for submission for approval in November 1999. The Group of National Experts (GNE) is in charge of identifying procurement policies and principles which cover such fundamental issues as arrangements for work-shares and preservation of national defence industrial bases. The GNE also deals with R&T policy, involvement of observer countries, liaison with other armaments agencies and cooperation with the EU/EC until November 2000.

130. The Group of National Experts will then move on to draw up a business strategy for the EAA, including contract management, organisation structure and staffing principles. It will also identify a list of potential pilot projects, draw up terms of reference (TORs) for tasks to be delegated to the EAA, and draft the formal documentation needed to facilitate observer participation and incorporate the EAA into the WEU/EU. An organisation chart will be submitted by the GNE in time for the autumn conference in the year 2000, which makes it possible to proceed with the nomination of the initial core staff of the agency and with the preparation of budgets which will also include proposals on a location for the EAA. Assuming the NADs and ministers agree with the GNE's proposals in November 2000, it will then move towards preparing for implementation and the establishment of the EAA. Work would concentrate on identifying financial, capital and staff requirements and seeking final approval of the necessary legal documentation.

131. The WEAO Charter outlines the Agency's range of activities, to include: research, procurement, studies, management of assets and other functions. The concept of a business strategy has to address both the Agency's commercial constitution and procedures (e.g. management techniques, philosophy on control), and acquisition strategies, which have to be flexible in order to cope with the changing demands of each new project. The business strategy must ensure the utmost efficiency in terms of an optimal cost-benefit ratio. The GNE will also have to consider tasks, that can be delegated from nations to the

EAA, including the identification of a representative pilot project.

132. The EAA's objectives need to be translated into practical guidelines to be agreed as formal annexes to the WEAO MoU. Other areas to be looked at under the policy-work package include:

- possibilities for integrating observers into WEAO activities;
- work on future harmonisation of European armaments activities carried out by the EU institutions;
- a contribution to the development of principles leading to greater community between WEAG nations, a Code of Conduct on harmonised application of Article 223/296 of the Rome/Amsterdam Treaty and common understanding on state aid and export policies;
- constructive rationalisation implies a single agency. Compatibility of both OCCAR and WEAO have to be examined and figure as a task in the Masterplan's "policy" area of work.

(ii) Future functions of the EAA

133. The EAA could support any collaborative action in Europe designed to ensure that the armed forces of the European nations are properly equipped for their recognised needs. It could well provide the armed forces of European nations with the defence goods they need and which their respective governments may wish to develop, procure, maintain, supply and dispose of through such an agency. In the field of defence Research and Technology activities, the EAA could manage R&T including technology demonstrator programmes (which are essential for skills maintenance over the longer term) and support for coordination of long-term technical requirements. It could also provide support in the formulation of technical specifications in relation to agreed operational requirements and lead to better application of the relevant MoUs (e.g. EUCLID, THALES, Test Facilities). In the field of defence equipment procurement, the EAA could manage the agreed national and cooperative equipment programmes and off-the-shelf procurement, in-service support and the formulation of design specifications. Studies could also

be conducted within the EAA. These might include Technology Studies in support of the harmonisation of operational requirements. The EAA would also be suited to manage assets and facilities. Other functions might be necessary in order to achieve the aims of the EAA (such as support to armaments exports or common use of Article 223/296 of the Rome/Amsterdam Treaty to enhance armaments cooperation in Europe. The initial decisions to be taken concern the description of functions as such, the authority of Board of Directors, Agency and Partnerships, the Principles and Policies necessary overall, and notably those which are so fundamental that they need to become amendments to the WEAO MoU.

(b) The future of WEAG and post-Cologne scenarios

(i) The future of WEAG in the evolving European security architecture

134. On the initiative of the Greek WEAG Chair, the WEAG Staff Group has been tasked to submit a proposal to NADs on the future of WEAG in the evolving European security architecture following the Cologne European Council Declaration, with a view to preparing a recommendation for the meeting of WEAG defence ministers in Luxembourg on 22 November 1999. Since the aim of WEAO is to assist in promoting and enhancing European armaments cooperation, in accordance with policies agreed by WEAG, this study also considers the consequences for the future of WEAO. Staff Group reflections on the future of WEAG/WEAO were based on an initial document issued by the WEAG NADs' Chairman. Consideration was also given to WEU Assembly Recommendation 644 to the WEU Council on "WEU after the Washington and Cologne Summits", and to the work already undertaken within WEAG and WEAO on this subject. With regard to the Cologne Declaration, the Staff Group noted that while the Cologne European Council recognised the need to undertake sustained efforts to strengthen the Defence Industrial and Technological Base (DITB) and to seek further progress in the harmonisation of military requirements and the planning and procurement of arms, no mention is made of how those objectives are to be achieved.

135. Therefore the Steering Group considers in particular that:

- there remains a need for a forum with a political dimension, directed by defence ministers, in which all European nations involved in the creation of the European Security and Defence Identity may discuss together all aspects of armaments cooperation and undertake cooperative activities;
- the existing WEAG/WEAO structure and organisation, in which the full members are entitled to participate fully and with the same rights and responsibilities, and in which decisions are taken on a consensus basis, provides the most appropriate arrangement to fulfil that requirement;
- the objectives of WEAG, namely more efficient use of resources through, *inter alia*, increased harmonisation of requirements, the opening up of national defence markets to cross-border competition, strengthening of the European defence industrial and technological base, cooperation in research and development, are still valid. The need for progress towards these objectives has become even more pressing in recent years because of reductions in defence budgets, the increasing pace of technological change, and the widening technology gap, in certain areas, between US and European defence capabilities;
- the opportunity still exists to make use of WEAO's legal capacity to place contracts, to further develop common activities, including procurement. Therefore further efforts should be made towards the establishment of the EAA based on the work of the Group of National Experts on the Masterplan;
- the political opportunity remains to continue the progressive opening up of WEAG/WEAO activities to other European nations within the framework of the European Armaments Partnership, and to further consider allowing them the possibility of becoming WEAG full members.

136. Taking account of the above, the Staff Group considers the following two options are worthy of further study:

- to keep the present special status for WEAG/WEAO activities. This would raise significant long-term political and short-term administrative issues and implies the allocation of the necessary resources for maintaining such autonomy.
- to take forward their activities under the umbrella of the EU. This solution could allow armaments cooperation gradually to come within the Community machinery and be more closely connected with developments under the CFSP.

137. On the basis of the above initial findings, and in the light of recent political developments, NADs were invited to recommend to ministers to:

- confirm their commitment to maintain WEAG as the sole European armaments cooperation forum and to retain it under the political direction of defence ministers;
- confirm their willingness to develop further WEAG activities, as well as those of its executive agency, WEAO, and to improve the efficiency and scope of the activities conducted in common so as to better meet the agreed objectives, including the eventual establishment of the EAA;
- reaffirm that all WEAG full members will continue to be entitled to participate fully in any future arrangement in the field of European armaments cooperation that might evolve from WEAG/WEAO, and with the same rights and responsibilities as currently enjoyed;
- reaffirm their decision to open progressively armaments cooperation activities to other European nations through the European Armaments Partnership, and agree to offer them the possibility of full membership once the necessary conditions are met.

(ii) Post-Cologne scenarios: integration of the institutional framework of the future EAA into the EU, status quo or development of an EAA outside the EU

138. Given the multiplicity of existing cooperation frameworks and the complexity of the way

they interlock, the temptation might be to start from scratch and set up an entirely new framework. However that solution is unlikely. It is necessary, therefore, to try and imagine what future scenarios might consist of. The governments are to make a statement on the future of WEAG and post-Cologne scenarios for armaments cooperation. Four options are possible. If the first is selected, the decision is straightforward: WEAG/WEAO would be the linchpin in setting up an "Armaments Europe" under European Union auspices (Option A). If the second is the one chosen WEAG/WEAO will remain as it is without coming under the European Union framework (Option B). The third would involve reconstituting an independent forum along the lines of the IEPG, supported by a volunteer host country or national government (Option C). Under the fourth option the governments would dissolve WEAG/WEAO (Option D).

139. Option A involves integrating WEAG and WEAO armaments structures into the European Union. Given that the heads of state and government have decided that the European Union should have the necessary capabilities and structures to enable it to take constructive decisions in the area of crisis management, one might envisage the formation within the European Union of a structure responsible for bringing a European armaments market, or more generally a European defence equipment market (EDEM) into being. A mixed Community and intergovernmental approach might possibly be envisaged. Decisions concerning the main objectives and the overall strategy for implementing that policy might be taken at intergovernmental level, in other words in the Union's second pillar. The first pillar, the European Commission, could be made responsible for its practical implementation.

140. We should recall that under all the options referred to, setting up an armaments structure within the European Union would raise the problem of who should belong to it and, in particular, the attitude that WEAG countries which are not EU members should adopt towards it. A high-level working group was tasked by EU defence ministers in Bonn on 28 May 1999 to look into the matter. To the best of your Rapporteur's knowledge no outcome (statement, mandate or progress report) has been published.

141. Integration into the EU could be via the

first (Option A 1) or the second pillar (Option A 2), in other words:

- (Option A 1) Under the first pillar, the European Armaments Agency would become a Directorate-General of the Commission with one or two special features (links with the EU's future Political and Security Committee and future Military Committee and with the permanent representative of the High Representative/Secretary-General of the Council). The first pillar offers a tradition of cohesion and solidarity, while the second, where political influence holds strong sway, leaves more room for horse-trading between states and a greater diversity of stances. Integration within the first pillar in this way would have significant legal implications, such as the European Court of Justice having jurisdiction over the EU market, possible European Parliament influence on lines of conduct falling within the purview of the first pillar, possible scrutiny by the European Court of Auditors of EU operations and finances, granting of full legal personality for market supervision and legal procedures. The European Armaments Agency may well become a special form of Directorate-General with Community funding. Bringing armaments into the first pillar requires the convening of an intergovernmental conference (IGC), a scenario which doubtless would encounter opposition from the majority of European governments which want armaments to remain an intergovernmental responsibility.
- (Option A 2) Armaments structures would be integrated into the second pillar. The second pillar is synonymous with intergovernmental management. WEAO is a WEU subsidiary body and as such has legal personality. Depending on WEU's evolution after 2001, the EAA could be set up in WEAO, which would remain, for a transitional period, within WEU. Consideration of the eventual transfer of WEAO (which would incorporate the Research Cell and the possible EAA) into the Euro-

pean Union's second pillar should not lose sight of the matter of its legal personality. Throughout the period of time between Maastricht and Amsterdam, the EU second pillar did not have a well-defined legal personality. After Amsterdam a "mini" legal personality was granted, but this was insufficient to allow it to award contracts and tenders under the internal legal frameworks of the EU member states. One solution might be to incorporate the wording of the Paris Agreements within the second pillar or strengthen the latter's legal personality, which would again imply organising an IGC.

142. It is possible to conceive, within the second pillar – alongside the Political and Security Committee, which will have oversight of the whole range of issues relating to the CFSP, and the Military Committee, which is to have responsibility for support to the Political and Security Committee and bringing together the Chiefs of Defence Staff – of an Armaments Committee at the level of the National Armaments Directors (NADs) which would report to the General Affairs Council and on which defence ministers would sit. The Armaments Committee, supported by sub-committees, could be tasked with drawing up policy guidelines to be put to the General Affairs Council for approval. The European Commission which could set up an armaments service or directorate, could be made responsible for implementing this global strategy.

143. The development and implementation of this European armaments policy within the European Union, which would essentially be directed towards the creation of a genuine European defence equipment market (EDEM), should be a gradual progress and deal in the first place with specific issues such as security of supply, intra-Community transfers or freedom to tender.

144. However, the integration within the policy pillar structures that have commercial responsibilities risks raising difficulties:

- the Commission, as the guarantor of the single market, is likely to resist such a derogation. At the first invitation to tender it would lay the matter before the European Court of Justice

(as it did in the case of dual-use goods, see paragraph 43);

- with regard to invitations to tender, the machinery set up in OCCAR and EUCLID constitutes precedents which are difficult to accommodate within the policy pillar.

145. By contrast, within the second pillar (Option A 2) there would certainly be the possibility of exploring some kind of *modus vivendi* recognising WEAG's identity and achievements. WEAG could continue as an informal discussion forum for armaments questions not dealt with within the EU armaments framework.

146. Option B would involve WEAG/WEAO being maintained intact without being integrated into the EU framework, with the latter being free, if it so wished, to create its own armaments structure. Provided WEU's legal personality continues to exist (by virtue of the Paris Agreements) WEAG/WEAO will continue to operate normally. Even if all other parts or functions of WEU are transferred to the EU, it is always possible to retain the WEU legal framework in order to achieve WEAG/WEAO objectives. Indeed, this would settle the matter of membership, in other words the position of those countries which are members of WEAG without belonging to the European Union. "Double-hatted" Ambassadors in Brussels with a dual remit could be the vehicle used for the purpose of discharging the functions of the Council when necessary (as was the case in London). But there is also the issue of the administrative support provided by WEU.

147. Under Option C, Governments might consider setting up an IEPG-type framework again. The return to the IEPG (independent forum) era, could be done with support from a volunteer country (like IEPG have in Lisbon or FINABEL⁷¹ in Brussels) but this would imply a return to the legal position that prevailed during

⁷¹ FINABEL: *de facto* international association/forum set up in 1953, which now brings together the Army Chiefs-of-Staff of the following countries: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom. FINABEL has no legal personality. It drafts proposals and recommendations for standardising ground defence equipment. Its proceedings can only be passed to interested governments through their own delegates, i.e. the Army Chiefs-of-Staff.

EUCLID Stage I, in other words recourse to the legal personality of the framework nation. Recourse might also be had to a national authority (UK Defence Evaluation and Research Agency (DERA) or the French Délégation Générale pour l'Armement (DGA), or to an association under Belgian law. In the latter case there would be internationalisation and privatisation of defence which would no longer be public property.

148. Option D: if defence ministers decide to dissolve WEAG/WEAO on the grounds that it no longer has a role in Europe and should make room for other fora or organisations better equipped to bring about greater cooperation between European governments, the execution of such a decision will require a period of at least three years to wind up all WEAG/WEAO commitments. Should those bodies cease to exist, their responsibilities might be transferred to NATO.

149. The creation within the EU of a new institution totally separate from present initiatives concerning an EAA, with the existing structures remaining to boot, would be the worst of all worlds. It would lead to a proliferation of fora and growing duplication. The creation of a new institution accompanied by the disappearance, pure and simple, of other cooperation frameworks would be tantamount to wasting a great deal of energy and know-how.

150. It is difficult to see how the pursuit of some form of coexistence between OCCAR and WEAO would be either viable commercially or in tune with the political will expressed in the Maastricht Treaty. Constructive rationalisation can only meet with success if the demands of the WEAG/WEAO member countries are channelled through a single agency and not spread across a number of different organisations.

151. Even within an EAA integrated into the European Union first pillar, WEAG could be the prime contact for the EU authorities involved (POLARM and the European Commission) and the originator of an armaments policy and common rules and procedures. Indeed an EAA cannot by itself draw up an armaments policy. It must be supported in this area by a European political authority – in other words WEAG. Alongside this political forum, supported by administrative structures, the EAA's operational side could be developed. In order to achieve this the WEAO Charter would have to be amended so

that alongside the Research Cell with responsibility for Research and Technology, the EAA would have to incorporate in its internal architecture both logistical aspects and OCCAR, with responsibility for development and procurement of defence goods. Perhaps the best option would be for OCCAR also to be integrated into that internal structure as this would have the advantage of preserving an intergovernmental structure within a format appropriate to armaments cooperation and the necessary ties with other EU bodies, in particular the European Commission, so that in the long run it would be possible to move towards a single European armaments policy within the European Union.

IV. Conclusions

152. A recent statement by France's armaments chief, Jean-Yves Helmer, seems to sum up the essential points: "If cooperation through programmes between states is far from perfect – as recent difficulties over the TRIMILSATCOM satellite telecommunications system, the Horizon Frigate or the infantry combat vehicle show – the ways to improve it have been identified. They consist, in the first place, in facilitating collective expression of European states' long-term requirements by entering into basic exchanges about a 30-year forward plan. Next, the number of joint research programmes must be increased, an essential step at a time when United States expenditure on defence research and technology is three times greater than European budgets taken together, in order to bring together areas of study, redundancy and paving the way for future cooperation. Finally the Joint Armament Cooperation Organisation now known as OCCAR must be given every chance of success ..."⁷²

153. If European states wish to preserve a European capability in defence technology and the related development and production capacities, they need to be quick to offer their industries advantages comparable to those that already exist in North America. They need to organise themselves as homogenous European customers for defence materiel, harmonising their military requirements so as to make possible sizeable and

economic production runs. General Schlieper⁷³ has argued that what is needed in respect of European armaments in order to achieve our DITB and EDEM goals is a homogenous market, one customer and just enough producers to allow for competition. Governments will create that single customer by means of an EAA".

154. In order to arrive at that position, what will the model chosen for integration be? There are a number of ways of looking at this. One possibility would be to continue to develop cooperation on an *ad hoc* basis according to variable geometry, opting for a degree of political *laissez-faire* and an institutional *status quo* as far as existing intergovernmental frameworks of cooperation are concerned. At the other extreme, another solution would be to work to an ambitious integration model which would span the whole distance from integration of defence markets at European level to setting up supranational machinery for managing those markets by reviving the idea of a European Aerospace and Defence Company (EADC) and taking a decision to set up a single EAA under the auspices of the European Union. In view of the industrial environment and the extreme urgency of the need for a rationalisation of both supply and demand, the first assumption must be discarded. The conditions do not exist for the second "federalist" solution to come about. A third solution therefore remains, which is merely to allow the process currently under way at the industrial, intergovernmental and Community levels to continue. This is the most likely scenario. The change in the attitude of governments, borne out by the process launched at the Cologne Summit, might pave the way for a more ambitious model for integration in keeping with the specific needs of the industry. Despite the complexity of the process and the contradictions it entails, governments and the industry are now aware of the need to pursue initiatives directed towards implementing an armaments Europe in a sustained manner.

155. The defence industry is crossing the threshold to the third millennium at a moment of extreme instability. In order to deal with such circumstances, the industry is increasingly feel-

⁷² "La DGA, évolutions et perspectives", Jean-Ives Helmer, *Défense Nationale*, No. 10, October 1999, pages 55-67.

⁷³ Address given by Divisional General Andries Schlieper, Chairman, National Experts Group, on "The future European Armaments Agency", *Air & Space Europe* conference, Le Bourget, 17 June 1999.

ing the need to look beyond the solution of *ad hoc* cooperation and is increasingly doing so on its own initiative. At government level, notwithstanding the delays and obstacles referred to in this report, signal progress is undoubtedly being made. Despite the obstacles that still lie in the way of a European Armaments Agency, most countries want to move forward. Finally, for the first time in the history of European integration, initiatives leading to a European armaments policy have been launched by the European institutions. In the time that has elapsed between Maastricht and Amsterdam and Cologne, the idea has matured considerably. The foundations for a common armaments policy have now been laid. The consultation phase has been succeeded by one of preparation and development of the instruments to implement it. But what of the political will?⁷⁴ The actions of Mr Solana, the CFSP High Representative and Mr Patten, the EU Commissioner for External Affairs, could act as a catalyst to the revival of Europe's defence ambitions. There would appear to be an awareness at the highest political level of the urgent need to build a defence Europe. At the same time, the climate of confidence necessary for establishing a common foreign and security policy and a common armaments policy now appears to exist. The fact that the Europeans have increasingly similar mission objectives could ultimately lead to harmonisation of military doctrines and member states, facing the same risks and threats, becoming increasingly interdependent.

156. Some feel that a common foreign and security policy is an essential condition for the establishment of a common armaments policy. Conversely, there is an alternative view which maintains that a defence pillar that was economically motivated would facilitate the formation of a European defence identity. Indeed, the machinery for setting up just such a pillar has been set in motion, albeit without agreement having been reached among governments on the ultimate objective: the creation of an armaments Europe.

After the single currency and in the light of the Cologne Summit and its potential repercussions, that objective could become the challenge facing tomorrow's Europe. Even in 1997, the French Prime Minister was saying that countries which were to share the same coinage could not forever maintain separate defence policies⁷⁵. Or in the words of one commentator: there is no existing example in the world of a power, of a community which, whatever its economic strength, has survived without making provision for its own security – in other words ensuring it has the means to defend itself. This rule is also true of Europe, which can look to no-one but itself to defend it. To be truly effective, any form of defence must be independent, at least up to a point, and can only find real expression through the forces, personnel and equipment, that are its own to command⁷⁶.

157. British Prime Minister, Tony Blair, talks of a breakthrough, as yet to be firmed up: "When we began the European defence debate at Pörschach in Austria and then followed it with the Saint Malo Declaration, there was rightly a sense of optimism. It was a breakthrough. But it is only a start. There is much talk of structures. But we should begin with capacities. To put it bluntly, if Europe is to have a key defence role, it needs modern forces, strategic lift, and the necessary equipment to conduct a campaign. No nation will ever yield up its sovereign right to determine the use of its own armed forces. We do, however, need to see how we can cooperate better, complement each other's capabilities, have a full range of defence options open to us. This also means greater integration in the defence industry and procurement. If we were in any doubts about this before, Kosovo should have removed them"⁷⁷. This is as clear and authoritative a statement as there could be on the need for defence Europe.

⁷⁵ Address by Lionel Jospin, IHEDN, 4 September 1997, cited by Daussage and Cornu, *op. cit.* page 204.

⁷⁶ "L'Europe de l'armement, hier, aujourd'hui et demain", Emile Blanc, *Revue de l'Armement*, No. 61, March 1998.

⁷⁷ "The new challenge for Europe", address by Tony Blair, given in Aachen, Germany, on 14 May 1999.

⁷⁴ See Mezzadri, *op. cit.*

APPENDIX I

GLOSSARY

List of main acronyms used

AIMS	Armament Information Management System (NATO) (paragraph 61)
CEMA	Chiefs of Defence Staff (paragraphs 22 and 24)
CEPA	Common European Priority Areas (EUCLID programme) (paragraphs 26 and 32)
CFSP	Common Foreign and Security Policy (Recommendation: paragraph 16 and paragraphs 39, 43-44, 88, 91-92, 136, 142 and 155)
CHODS	Chiefs of Defence Staff (see paragraphs 22 and 24)
CNAD	Conference of National Armaments Directors (NATO) (paragraphs 9, 17, 61-66, 80 and 86)
COARM	Conventional Arms Exports Working Group (EU) (paragraphs 4, 12, 41-42, 48 (9th indent) and 75)
COPS	Political and Security Committee (planned for EU) (paragraphs 92 and 142)
COREPER	Committee of Permanent Representatives (EU) (37-38, 41 and 48 (1st indent))
DDI	Developing Defence Industry (countries with) (paragraphs 27 and 34)
DITB	Defence Industrial and Technological Base (paragraphs 27, 89-90, 119 (e) and 153)
EAA	European Armaments Agency (paragraphs 2 and 121 to 151)
EADC	European Aerospace and Defence Company (paragraphs 116 and 154)
EADS	European Aeronautic, Defence and Space Company, formed from the recent merger of Aerospatiale and Dasa (paragraphs 108-114)
EDEM	European Defence Equipment Market (paragraphs 17, 27, 139, 143 and 153)
EDIG	European Defence Industries Group (paragraphs 29, 61, 76 and 119)
EIG	Economic Interest Grouping (paragraph 110)
ELT	(see Eurolongterm)
ERS	Equipment replacement schedules (paragraphs 25 and 79)
ESDI	European Security and Defence Identity (Recommendation: paragraph 16, and paragraph 20)
ESDP	European Security and Defence Policy (Part III.1 (a))
EU	European Union
EUCLID	European Cooperation for the Long Term in the field of Defence, European R&D cooperation programme (WEAO) (paragraphs 17, 26, 31-34, 48 (4th indent), 133, 144 and 147)

Eurocom	WEU Working Group whose main aim is to promote interoperability between the tactical communications systems of ground forces (paragraphs 4, 6, 11, 19, 23-24)
Eurofinder	Machinery allowing multinational industrial consortia to submit spontaneous proposals within the EUCLID research framework (WEAO) (paragraphs 17, 32 and 33)
Eurolongterm (or ELT)	WEU Working Group to provide long-term military planning and harmonisation of requirements (WEU) (Recommendation: paragraphs 2 and 7 and paragraphs 4, 6, 21-24 and 79)
EUROPA	European Undertaking for Research Organisation, Programmes and Activities (paragraphs 34 and 82)
IGC	Intergovernmental Conference (paragraph 141)
IEPG	Independent European Programme Group (paragraphs 6 and 17)
LoI	Letter of Intent concerning measures to facilitate the restructuring of European Defence Industry, signed on 6 July 1998 by six European Defence Ministers (France, Germany, Italy, Spain, Sweden and the United Kingdom) (Recommendation: paragraph 11 and paragraphs 4, 6, 8, 34, 42, 48 (1st indent), 51-55, 73-76, 77, 80, 82-83, 95)
MoU	Memorandum of Understanding (paragraphs 15, 17, 20, 32, 34, 55, 82, 123, 132 and 133)
NADs	National Armaments Directors (paragraphs 14, 16, 25-26, 30, 32, 55, 61, 80, 126, 130, 134, 137 and 142)
OCCAR	Organisation for Joint Armament Cooperation (Recommendation: paragraph 1 and paragraphs 4, 6, 10, 34, 48 (5th indent), 56-60, 76, 80, 82, 128 (ii), 132, 144 (2nd indent), 150-152)
POLARM	Ad Hoc European Armaments Policy Group (EU) (Recommendation: paragraph 12 and paragraphs 4, 12, 37-40, 47, 48 (1st indent), 71, 74 and 151)
PPEWU	Policy Planning and Early Warning Unit (EU) (paragraph 91)
R&D	Research and Development (paragraphs 33-34)
R&T	Research and Technology (paragraphs 9, 31, 32, 34, 51-52, 62, 65, 67, 82-84, 86, 119 (e) and 129)
SCITEC Study	Science and Technology Strategy Study (WEAG) (paragraphs 26 and 85)
SOCRATE	System of Cooperation for Research and Technology in Europe (Memorandum of Understanding signed in 1998 by the WEAG countries and Finland and Sweden) (paragraphs 15, 17, 32-34)
TDC	Transnational Defence Company (paragraph 52)
TEU	Treaty on European Union (paragraphs 36-37, 47 and 48 (8th and 9th indents))
THALES	Technology Arrangement for Laboratories for Defence European Science (WEAG) (paragraphs 17, 32, 34 and 133)
TRD	Technology Research and Development (EU) (paragraphs 45, 48 (4th indent) and 85)

WEAG	Western European Armaments Group (Recommendation: paragraphs 2, 5, 9, 11, 12, 15-18 and 20, and paragraphs 4, 6, 11, 13-17, 23, 25-30, 31-34, 36, 48 (5th indent), 55, 60, 61, 63, 67, 68-73, 76-86, 100, 103, 119(e), 123, 124-126, 128, 132 (3rd indent), 134-137, 138-140 and 145-151)
WEAO	Western European Armaments Organisation (Recommendation: preamble (v) and paragraphs 8, 9, 11, 12 and 17, and paragraphs 4, 6, 11, 17, 31-34, 80, 82-83, 86, 123, 127, 132-139, 141 (2nd indent), 146, 148, 150 and 151)
WEAO-RC	WEAO Research Cell (paragraphs 123-124)
WELG	Western European Logistics Group (WEU) (paragraphs 4, 6, 11, 20 and 24)

APPENDIX II

Different types of armaments cooperation structures in Europe

States	WEU		OCCAR	LoI	EU	NATO
	WEU	WEAG WEAO	WEAG		POLARM COARM	
Austria	Obs	Obs			M	EAPC
Belgium	M	M			M	M
Bulgaria	AP					EAPC
Canada						M
Czech Republic	AM					M
Denmark	Obs	M			M	M
Estonia	AP					EAPC
Finland	Obs	Obs			M	EAPC
France	M	M	M	S	M	M
Germany	M	M	M	S	M	M
Greece	M	M			M	M
Hungary	AM					M
Iceland	AM					M
Ireland	Obs				M	
Italy	M	M	M	S	M	M
Latvia	AP					EAPC
Lithuania	AP					EAPC
Luxembourg	M	M			M	M
Netherlands	M	M			M	M
Norway	AM	M				M
Poland	AM					M
Portugal	M	M			M	M
Romania	AP					EAPC
Slovakia	AP					EAPC
Slovenia	AP					EAPC
Spain	M	M		S	M	M
Sweden	Obs	Obs		S	M	EAPC
Turkey	AM	M				M
United Kingdom	M	M	M	S	M	M
United States						M

M:	member	WEU	: Western European Union (1954)
AM:	associate member	WEAG	: Western European Armaments Group (1992)
Obs:	observer	WEAO	: Western European Armaments Organisation (1996)
AP:	associate partner	OCCAR	: Organisation for Joint Armament Cooperation (1996)
S:	signatory	LoI	: Signatory states of the Letter of Intent (LoI) dated 6 July 1998
		EU	: European Union
		NATO	: North Atlantic Treaty Organisation (1949)
		EAPC	: Euro-Atlantic Partnership Council (NATO, 1997)

APPENDIX III

Table setting out the main military equipment programmes currently being conducted in cooperation between European countries

Project name	Countries involved	Industrial details	Description
TRIGAT-LR (long range) AC3G/LP 3rd generation anti-tank missile	France, Germany, United Kingdom	<ul style="list-style-type: none"> Project manager: Euromissile Dynamics Group (EMDG), consortium set up by Acrospatiale, Dasa and Matra BAe/Dynamics (MBD) Eurocopter has signed a co-operation agreement with EMDG's parent companies over managing completion of the development phase of the Tiger helicopter gun turret and the industrialisation and production phases. 	<ul style="list-style-type: none"> The TRIGAT-LR is a 3rd generation long-range anti-tank missile (5000 m): replacement for HOT designed as a fire and forget missile. It is intended to equip the German UH-T and French HAC¹ and export versions of the Tiger helicopter, and can also be fitted in tracked vehicles. Completion of development and test firing is scheduled for 2002. France has decided not to take part in production of the missile but intends to proceed to competitive tender for subsequent procurement. (French National Assembly, Opinion 1864, Volumes IV and VIII: "Forces Terrestres" and "Crédits d'équipement", 14/10/99). This programme is in the process of being brought within OCCAR.
TRIGAT-MR (Medium Range) AC3G/MP 3rd generation anti-tank missile	Belgium, France, Germany, Netherlands, United Kingdom	<ul style="list-style-type: none"> Project manager: Euromissile Dynamics Group (EMDG), consortium set up by Acrospatiale, Dasa and 	<ul style="list-style-type: none"> The TRIGAT-MR is a 3rd generation medium-range anti-tank missile (2000 m). A portable missile effective against both the latest heavy tanks with the most modern reactive armour and any manoeuvring land-based target or low-level

¹ For further details see "Tiger" programme in this table.

Project name	Countries involved	Industrial details	Description
		<p>BAC/MBD.</p> <ul style="list-style-type: none"> • The production contract will go to Aerospatiale Missiles contract (<i>La politique française d'armement</i>– subject under study, French Ministry of Defence, end-1999). • The TRIGAT-MR programme is a formative programme for the developing European missile industry. 	<p>aeroterrestrial target. Round the clock, all-weather effectiveness in urban or suburban environments.</p> <ul style="list-style-type: none"> • The entire programme covers 1570 fire points and 35 000 ordinance (<i>La politique française d'armement</i> – subject under study, French Ministry of Defence, end-1999). • The development phase is being completed and the required test firings have taken place. The production contract worth approximately FF 8 billion (JDW² 30/6/99) can only go ahead after the results of the German budget round are known and Belgium and the Netherlands have signed the contract. First deliveries of the TRIGAT-MR are scheduled for the year 2002 (JDW 30/6/99). • The programme is to be managed by OCCAR once production has started
<p>APACHE Air-ground missile family</p> <ul style="list-style-type: none"> – Apache (anti-runway version) – Scalp EG or Storm Shadow (general use, long-range cruise system) – Apache (no area entry version) 	France, United Kingdom, Italy	<ul style="list-style-type: none"> • Matra-BAC Dynamics (MBD) is the industrial project manager and Aerospatiale Missiles the main partner. • Partnership with Alenia has been confirmed. • Other unconfirmed 	<ul style="list-style-type: none"> • This air-ground missile was initially designed in an anti-runway version and initial deliveries are expected in 2001. The development of the first Apache led to the Scalp EG/Storm Shadow programme³, which has been in the development phase since 1997. • The Scalp EG/Storm Shadow programme is a coordinated Franco-British programme (both

² JDW: *Jane's Defence Weekly*.

³ The construction of the Apache family allowed Europeans to acquire shared expertise in the area of cruise missiles. It thus became possible to reduce the deadlines and costs of the Scalp programme by half as compared to those of the Apache and obtain firmer commitments from manufacturers. The progress made encouraged the states to go ahead with an overall order covering the missile development, industrialisation and production phases (*L'Armement*, No. 66, June 1999, p. 89 etc.).

Project name	Countries involved	Industrial details	Description
		<p>partnerships possible: with LFK (Germany) and Saab (Sweden).</p>	<p>nations having notified their own contracts). In September 1999, Italy joined the programme as an associate, its participation accompanied by a substantial order.</p> <ul style="list-style-type: none"> All the missiles meet NATO specifications, allowing them to be incorporated in standard aircraft. To date, Apache has been incorporated into the Mirage 2000 and the Tornado. It is planned to install the Scalp EG/Storm Shadow into the Rafale, the Harrier and the Eurofighter 2000-Typhoon.
<p>FTA (Future transport aircraft)</p>	<p>Belgium, France, Germany, Italy, Spain, Turkey, United Kingdom.</p>	<ul style="list-style-type: none"> If the A400M is selected, it will be developed by Airbus Military Company, the military subsidiary of Airbus Industrie, bringing together industries from the seven participating nations: Aerospatiale (France), Alenia (Italy), BAe (United Kingdom), Casa (Spain) and Dasa (Germany), with associates Flabel (Belgium) and Turkish Aerospace Industries (Turkey)⁴. 	<ul style="list-style-type: none"> The FTA project corresponds to a need on the part of Europe for a capacity for autonomous action and specifically the deployment of armed forces over distance. In practical terms, there is also a need to replace the Transall tactical transport aircraft in service in France and Germany as from 2005. Various solutions are being considered by the nations involved in the programme: <ul style="list-style-type: none"> Airbus Military Company's A400M (Airbus Military Company is a 51%-owned subsidiary of Airbus Industrie and the seven manufacturers representing the seven participant countries); the combination of a mixed fleet of American C-17 (Boeing) and C-130 (Lockheed-Martin)

⁴ There is a great deal riding on this project for Airbus. The A400M solution would mean the creation of a hub of military activity within Airbus Industry. Furthermore the A400M programme involves a workload equivalent to that of around 500 A320s. (*L'Armement*, No. 66, June 1999, p. 52). If the A400M is chosen, a commercial approach will be adopted. This means that states will not specifically finance the development costs of the aircraft, which will be reimbursed through procurement.

Project name	Countries involved	Industrial details	Description
			<p>aircraft procured “off-the-shelf” through competitive tender with the Airbus bid, is being envisaged by four countries (Belgium, France, Spain and the United Kingdom);</p> <ul style="list-style-type: none"> – four countries (France, Germany, Italy and Spain) are also looking into the possibility of a new “westernised” version of the Antonov 70 (An 70), the product of Russian-Ukrainian co-operation (<i>L'Armement, No. 66, June 1999, p. 51 et seq.</i>) <ul style="list-style-type: none"> • Schedule: a decision is expected early in 2000. If the A400M is chosen, contracts could be notified from February 2000 for deliveries by end 2005. • On the assumption that the A400M is selected, the programme will be brought into OCCAR
BONUS anti-tank shell	France, Sweden	Joint contractors: <ul style="list-style-type: none"> – Bofors Celsius (Sweden); – Giat Industrie (France). 	<ul style="list-style-type: none"> • 155 mm top attack artillery projectile for neutralisation of stationary or moving tanks and light armoured or other automated vehicles. • Memorandum of Understanding for development of the ordnance signed in 1993. Contract placed on 15 October 1993. Start of initial conditional batch of industrial production 29 July 1998.
BREVEL light aircraft	France, Germany	<ul style="list-style-type: none"> • Industrial project management by GIE Eurodrone (Matra BAe Dynamics and STN Atlas Elektronik (Germany)). Development costs are shared between Germany 	<ul style="list-style-type: none"> • The Brevel is a light radar-controlled aircraft unit or <i>Unmanned Aerial Vehicle</i> designed to meet the needs of the French and German armies. • It is to be used for round the clock in-depth enemy surveillance, detection, reconnaissance, identification and precise localisation of fixed or

Project name	Countries involved	Industrial details	Description
		and France on a 50/50 basis.	<ul style="list-style-type: none"> • mobile targets and artillery efficiency control. • France is not to participate in the production phase. However, the Brevet remains one possible off-the-shelf solution to meet French land army needs from 2002. • As far as Germany is concerned the contract for the industrialisation and production phases was notified at the end of 1998. First deliveries to the German army should start in 2001. • The programme comes under OCCAR.
COBRA counter-battery radar	France, Germany, United Kingdom	Industrial project manager: Euroart Advanced Radar Technology GmbH, a subsidiary of Thomson, Racal, Siemens and Lockheed Martin.	<ul style="list-style-type: none"> • Radar for locating enemy artillery over long distances and for counter-battery measures. • Contract for the industrialisation phase signed on 6 March 1998. Technical and operational testing carried out successfully. Deliveries scheduled from 2001 to 2006. • Brought under OCCAR in February 1999: the first OCCAR programme in which the United Kingdom has taken part.
EUROFIGHTER 2000 fighter aircraft since 1998 known as the TYPHOON	Germany, Italy, Spain, United Kingdom	<ul style="list-style-type: none"> • Project manager: Eurofighter Consortium (Participant companies: Alenia (Italy), BAe (United Kingdom), Casa (Spain) and Dasa (Germany). • Consortium responsible for engine: Eurojet (Participant companies: Fiat Avio (Italy), ITT (Spain), 	<ul style="list-style-type: none"> • Multi-capability fighter aircraft. Capabilities include: <ul style="list-style-type: none"> – beyond visual range air combat; – close-in combat; – (close air support); – suppression of enemy air defences (SEAD). (JDW, 9/6/99, p. 71 <i>et seq.</i>) • Managed by the NATO Eurofighter and Tornado Management Agency (NETMA). • Initial orders could lead to deployment of 620 Eurofighters (with an additional option on a further 90): 232 for the United Kingdom, 180

Project name	Countries involved	Industrial details	Description
		MTU (Germany) and Rolls-Royce (United Kingdom). <ul style="list-style-type: none"> • Shared development costs as follows: <ul style="list-style-type: none"> - Germany (33%), - United Kingdom (33%), - Italy (21 %) and - Spain (13 %). 	for Germany, 121 for Italy and 87 for Spain) in three phases scheduled between 2001 and 2014 (JDW, 9/6/1999). The production phase began in January 1998 with first deliveries eventually scheduled for June 2002 ⁵ . A contract for an initial batch of firm orders for 148 aircraft was signed in September 1998. Flight tests on 7 prototypes are in progress (the aircraft will pass the 1000 flight-hour milestone by December 1999).
F124 (Germany) LCF (Netherlands) F100 (Spain) Multipurpose Frigate	Germany, Netherlands, Spain	ARGE 124 Group (Germany) consisting of Blohme and Voss GmbH, Howaldtwerke-Deutsche Werft AG and Thyssen Nordseewerke GmbH, Royal Schelde (Netherlands) and Bazan (Spain)	<ul style="list-style-type: none"> • 5 800 ton multipurpose frigate. Trilateral agreement signed in 1994 for development and national construction of the frigate in each of the three countries. The agreement covers the ship's platform but not the onboard weapons systems. Each country has evolved its own independent frigate design, although these are largely homogenous. (See website: naval-technology.com).
FOAS (Future Offensive Aircraft System)	France, United Kingdom	Work being undertaken by the joint venture set up for the purpose by Dassault Aviation and British Aerospace.	<ul style="list-style-type: none"> • This project which was initiated by France and the United Kingdom is still in an exploratory phase. Properly speaking it is less a programme than technological research and joint demonstrators in preparation for a joint fighter aircraft programme to replace Eurofighter and Rafale, looking ahead 20 or 30 years⁶.

⁵ Greece, which has officially selected Eurofighter, is in the process of negotiating procurement of between 60 and 90 aircraft. A Memorandum of Understanding on Greece's participation in the programme is in the process of negotiation. Norway, which has issued an invitation to tender for 30 aircraft (10 of them optional) should reach a decision in principle, (between the EF 2000 or the F16), in January 2000.

⁶ See *Air & Cosmos*, 17/9/99, p.14.

Project name	Countries involved	Industrial details	Description
HELIOS Satellites	Helios 1 France, Italy, Spain Helios 2 France	<ul style="list-style-type: none"> Industrial project manager: Matra Marconi Space France with German, Italian and Spanish associates. (<i>La politique française d'armement</i> – subject under study, French Ministry of Defence, end-1999) 	<ul style="list-style-type: none"> Discussions have started on opening up the project to other partners (Germany, Sweden). Optical sensor space observation system⁷. First generation built by France in partnership with Italy and Spain. A first satellite, Helios-1A, with a contractual life of five years, was put into orbit in mid-1995, a second (Helios-1B) will be launched at the end of 1999. Helios-1A's life expectancy does not extend beyond 2002-2003 (Opinion 1114, submitted to the French National Assembly by Mr Michel, 8/10/98). France has committed itself to building a second generation of the system, Helios-2, with considerably enhanced performances. The first satellite launch is scheduled for early 2003. (<i>La politique française d'armement</i> – subject under study, French Ministry of Defence, end-1999) The programme remains open to other European partners⁸. This programme could be taken into OCCAR.
HORIZON anti-aircraft defence frigate	France, Italy, United Kingdom then France, Italy	Initially based on the Horizon International Joint Venture Company consortium involving the French Government's naval construction agency (DCN),	<ul style="list-style-type: none"> Project launched in 1994 on the basis of tripartite cooperation between France, Italy and the United Kingdom. Notwithstanding major work achieved by the three nations in frigate design, at the United Kingdom's initiative, the

⁷ To date, the Helios system is the only European satellite observation system with military capability.

⁸ Italy and Spain have still not committed themselves to Helios 2. Germany has finally decided not to take part in any current satellite projects, largely for budgetary reasons. This is true not only of optical systems like Helios, but also the Horus (formerly Osiris) programme. The latter incorporates a radar observation system allowing for all-weather surveillance (as compared with the optical systems which are restricted to good weather use. Europe still lacks this technology although the Americans have long had a good grasp of it. Following the war in Kosovo, discussions took place within the SPD to rethink Germany's commitment to European satellite projects.

Project name	Countries involved	Industrial details	Description
		<p>GEC Maritime (United Kingdom) and Orizzonte SpA (Italy), cooperation is now continuing within a consortium involving DCN and Orizzonte, after the United Kingdom's withdrawal from the programme.</p>	<p>defence ministers of the three countries decided to end the tripartite arrangement in April 1999. France and Italy reached an agreement, signed by the National Armaments Directors in mid-September 1999, to continue the programme on a bilateral basis.</p> <ul style="list-style-type: none"> • The United Kingdom is continuing its research to examine the possibilities of cooperation over sub-assemblies and establish terms for maximum interoperability between the Horizon and British frigates. • The project, originally estimated at a cost of €15 billion, initially envisaged the construction of 22 anti-aircraft frigates (12 for the United Kingdom, 6 for Italy and 4 for France). Following British withdrawal⁹, owing to disagreements over the type of vessel that was to be built, the capabilities of the principal armaments system and the industrial organisation of the project, the French and Italians decided to produce four frigates (2 per country) on the basis of a budget of €3.1 billion. • The programme will in any event be taken over by OCCAR.

⁹ The British decided no longer to take part in the construction of the vessel itself but are still involved in developing the principal anti-aircraft missile system (PAAMS), which was to be fitted in the tri-national frigate. See PAAMS programme further on in table.

Project name	Countries involved	Industrial details	Description
LRM-NG New generation rocket launcher	France, Italy, Germany, United Kingdom, United States	<ul style="list-style-type: none"> Project manager: Lockheed Martin Vought Systems. 	<ul style="list-style-type: none"> Artillery system for in-depth strikes. Development in progress.
METEOR Air-air future missile	France, Germany, Spain, Sweden, United Kingdom	<ul style="list-style-type: none"> Project manager: Matra BAc Dynamics (MBD)¹⁰ 	<ul style="list-style-type: none"> The United Kingdom launched the BVRAAM programme for extended air-air capability missiles for Eurofighter planes; there are two competing bids: <ul style="list-style-type: none"> the METEOR European bid: this also involves the other partner countries in the programme plus France for the Rafale and Sweden for the Gripen aircraft. The bid is being submitted by MBD; a US bid, led by the American company, Raytheon, in which only the United Kingdom is interested. Decision from the British Government due early in 2000¹¹.

¹⁰ See paragraph 113 of the Explanatory Memorandum for further information about recent restructuring of the industry in the area of missiles.

¹¹ On the issues surrounding the British choice, see "Europe's defence dilemma", by Alexander Nicoll, *Financial Times*, 19/10/99, p.15. See also *Aviation Week & Space Technology*, 20/9/99, p. 34-35 and *Wall Street Journal Europe*, 21/10/99, p. 14.

Project name	Countries involved	Industrial details	Description
MILAN HOT and ROLAND missiles	France, Germany	Euromissile Consortium (Dasa, LFK, Acrospatiale Missiles).	<ul style="list-style-type: none"> • MILAN: initially developed for the French and German infantry, Milan is now in service in at least 40 countries. The 3rd generation, Milan 3, has been in service since 1996. • HOT: ground-air battlefield defence system developed bilaterally (by France and Germany) starting in the 1960s (first agreement in 1964) and commissioned in the late 1970's for the French and German armies, and in 1987 for the German air force and navy. In 1997 it was chosen by France and Germany to equip the Franco-German Tiger helicopter, pending commissioning of a long-range anti-tank missile (the Trigat-LP being a potential candidate). • ROLAND: the most recent bilateral agreement, which entered into force in 1989, dealt with the need to add value to this type of weapon system. France notified its industrialisation phase in late 1997 and deliveries are scheduled from 2001 onwards. Germany has also decided to modernise its Roland weapons systems for its army. • The programme has been brought under OCCAR.
GTK (<i>Gepanzertes Transport Kraftfahrzeug</i>)	Germany, United Kingdom	<ul style="list-style-type: none"> • After France's withdrawal from the programme¹², made 	<ul style="list-style-type: none"> • Fundamental disagreements have prevented France, initially a partner in the launch of the project, from being involved in the development

¹² On the reasons for the French withdrawal, see *Le Monde*, 7-8/11/99. The French DGA (France's national procurement office) issued an invitation to tender and discussions are in progress in France on the selection of the companies to manage the VCI (Infantry combat vehicle) project based on an estimated national demand of 500 to 600 vehicles. GIAT Industries

Project name	Countries involved	Industrial details	Description
MRAV (Multi Role Armoured Vehicle)		public in November 1999, the French GIAT group pulled out of the ARTEC consortium and a new bi-national consortium was formed between Kraus Maffei (Germany), and Alvis Vehicles (United Kingdom).	<p>of the fighter vehicle (“Examen des crédits des Forces terrestres”, Mr Sandrier, Rapporteur, French National Assembly, 20/10/99).</p> <ul style="list-style-type: none"> • The programme, is to be pursued on a bilateral basis, and managed by OCCAR. It is currently at the end of the feasibility study stage. Production will initially be 600 vehicles (300 per nation, worth €750 million) with delivery scheduled, after a two- year delay, for 2004. • Italy, Spain and Poland have expressed an interest in taking part in the programme and the Netherlands wants to join the as a full partner nation (see army-technology.com – the website for Defence Industries).
MU-90 Torpedo	France, Italy	EuroTorp Consortium: economic interest grouping consisting of DCN International (26%), Thomson CSF (24%) and Wass (Alenia 50%)	<ul style="list-style-type: none"> • Bulk orders placed end 1998. • Programme currently at production stage. • End 1998-early 1999: orders placed by Germany and Denmark.

and a group comprising of Panhard and RVI are in competition, with both of the competitors looking to European partners for assistance. According to the companies concerned, the MRAV/GTK project should give rise to production of 4 000 vehicles, to an overall value of some €4.5 billion.

Project name	Countries involved	Industrial details	Description
Helicopter NH-90	France, Germany, Italy, Netherlands	Project manager: NH Industries NHI, (Private limited company under French law founded in 1992; 42.4% owned by Eurocopter France, 26.9% by Agusta, 24% by Eurocopter Deutschland and 6.7% by Fokker Aviation.	<ul style="list-style-type: none"> • France, Germany, Italy and the Netherlands expressed a common requirement in 1987 in the form of the <i>NATO Specifications Requirement</i>, to be produced in two versions: the TTH (<i>Tactical Transport Helicopter</i>) and NFH (<i>NATO Frigate Helicopter</i>). • The programme is managed by the NATO Helicopter Management Agency (NAHEMA) as far as the design, development, production and logistics of the NATO helicopter of the 1990s is concerned. This agency is responsible for awarding contracts. The programme is in its final stage of development with flight tests having been carried out on four prototypes out of five. • Negotiations over the industrialisation and production phases are in progress in preparation for the signature of a contract for the first batch of 214 aircraft for the four participant nations by summer 2000 (of a revised total requirement this summer for 595 aircraft). Initial deliveries are scheduled for 2004.
NGIFF (New Generation Identification Friend or Foe)	Germany, France (Italy withdrawn)	Formation on 12 September 1997 of a company under German law, Euro-ID GmbH (Partners: Dasa 58% and Thomson 42%).	<ul style="list-style-type: none"> • To contend with needs arising through the obsolescence of the "Identification Friend or Foe (IFF)" equipment currently in service and with the threat of electronic warfare and developments in civilian air traffic control in mind, France and Germany are today engaged in a bilateral project (which started in May 1999) based on a partnership originally entered into in 1997 between themselves and Italy.


Project name	Countries involved	Industrial details	Description
			<ul style="list-style-type: none"> • The signature of the initial contract for procurement of civilian air-traffic control transponders with new S mode capability is scheduled for end-1999. • It is envisaged that this programme will eventually be managed by OCCAR.
PAAMS (Principal Anti-Air Missile System)	France, Italy, United Kingdom	<ul style="list-style-type: none"> • European consortium Europaams SAS is the industrial programme manager and runs a tripartite project bureau located in France. • The consortium comprises Aerospatiale Matra Missiles and Thomson-CSF in France, Alenia Marconi Systems in Italy and Matra BAe Dynamics in the United Kingdom. • Europaams is in fact made up of two conglomerates of which it is the subsidiary: the Eurosam consortium (Aerospatiale, Thomson-CSF and Alenia-Finmeccanica) and Ukams (100% subsidiary of Matra-BAe Dynamics, itself a 	<ul style="list-style-type: none"> • Anti-aircraft missile and anti-missile system for the new anti-aircraft frigates of the three nations, the PAAMS system draws heavily on the future surface-air missile family programmes (FSAF) developed around the Aster 15 and 30 missiles in which France and Italy, through collaboration between Aerospatiale, Thomson-CSF and Alenia, have already invested some FF 15 billion (US\$ 2.5 billion) in development loans. FSAF was brought into OCCAR on 16 June 1999. • A contract worth €2.1 billion was awarded to Europaams in August 1999 for the entirety of the project. This involves an 18-month predevelopment phase followed by a further 6-year phase for the actual development. (<i>French National Assembly, Opinion 1864, Vol. V "Marine" 14/10/99</i>). • The initial requirements for the partner countries were for a fit-out for 12 Royal Navy frigates and 4 and 6 vessels respectively for the Italian and French naval forces (see Horizon programme in this table). • The system is a formative programme for the European defence industry (<i>French National</i>

Project name	Countries involved	Industrial details	Description
		subsidiary of Aerospatiale-Matra and BAe).	<i>Assembly, Opinion 1864, Vol. V "Marine" 14/10/99).</i> <ul style="list-style-type: none"> • Programme management undertaken by OCCAR (see also <i>Le Monde</i>, 18/9/99 and <i>Revue Aerospatiale</i>, No. 161, September 1999).
POLYPHEM missile system	France, Germany, Italy	<ul style="list-style-type: none"> • TRIFOM consortium: equal participation between Aerospatiale/LFK/Italmisile (Alenia Fiat). 	<ul style="list-style-type: none"> • Since 1986, France and Germany have pioneered the study of a fibre-optic guided missile concept. Italy joined the project in 1994. • The TRIFOM fibre-optic guided ground-to-ground weapons system, based on the Polyphem missile, is intended for the army (so-called artillery version) and can deliver deep fire over large distances with high-precision targeting. • Development phase currently in progress. • Entry in service is scheduled for around 2005. • Germany would be interested in a naval version of Polyphem, a light anti-ship missile developed by LFK.
PzH 2000 (Panzerhaubitze 2000) Automated Howitzer	Germany, Italy	Krauss-Maffei Wegman GmbH (KMW) (Germany).	<ul style="list-style-type: none"> • 155 mm howitzer developed by KMW for the German army under a contract awarded in 1996 for 185 units out of a total of 600 (for the German army alone) up to the year 2002. • A German/Italian collaborative venture between KMW and Otobreda, the programme also envisages delivery of 70 units to the Italian army (see army-technology.com – the website for Defence Industries). • It is envisaged that this programme will be taken into OCCAR.

Project name	Countries involved	Industrial details	Description
Joint military communications system by satellite ¹³	France		<ul style="list-style-type: none"> • The United Kingdom's withdrawal on 12 August 1998 seriously jeopardised the continuity of the project. Germany and France are together studying arrangements for continued cooperation on a bilateral basis. • The possibility of Germany leasing capabilities on the first successor satellite to Syracuse 2 is being looked at. • Partnerships are currently being studied, mainly with Germany.
TIGER Combat helicopter	France, Germany	<ul style="list-style-type: none"> • Managed by Eurocopter Tiger GmbH, wholly-owned subsidiary of Eurocopter, a Franco-German company (public limited company under French law, 70% owned by Aerospatiale Matra and 30% by Dasa). • The launch of the Tiger programme has been decisive in consolidating Eurocopter, which is today the overall world leader in helicopters. • The Tiger's MTR 390 	<ul style="list-style-type: none"> • New-generation fighter helicopter adapted to the very wide current variety of new scenarios, intended primarily for the French and German armies. • There are two designs: <ul style="list-style-type: none"> – the (HAP) support-protection model, chosen by France; – 2 anti-tank variants, selected by France (HAC) and Germany (UH-T). • The overall programme quantities are 215 aircraft for France and 212 for Germany. • The production contract for an initial mass-produced batch was signed in Le Bourget on 18 June 1999, and covers a total of 160 aircraft: 80 UH-T for Germany, 70 HAP and 10 HAC for France (the overall programme total is 427

¹³ The attempt to create a European cooperative venture for communications by satellite arose from coincidence of the replacement dates for national systems in service in France (Syracuse 2) and the United Kingdom (Skynet 4) and convergence of operational requirements with Germany. Under the arrangements adopted, a bi-national (Bimilsatcom) or tri-national (Trimilsatcom) project might be envisaged or, with greater difficulty, one including other European countries (Eumilsatcom) (*French National Assembly, Opinion 1864, Vol. VIII: "Crédits d'équipement", 14/10/99*).

Project name	Countries involved	Industrial details	Description
		engine is built by MTR GmbH, comprising MTU (Germany), Turboméca (France) and Rolls-Royce (United Kingdom).	aircraft: 212 for Germany and 215 for France). <ul style="list-style-type: none">• The programme comes under OCCAR and the contract is managed by its Tiger Division (<i>cf. "La politique française d'armement"</i>, subject under study, French Ministry of Defence, end-1999).

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