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WORKING PAPER No. 10 OF THE EUROPEAN SECURITY FORUM

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CHAIRMAN'S SUMMING UP

KLAUS BECHER*

The meeting of the European Security Forum on 25 November 2002 was devoted to the analysis of European and transatlantic defence-industrial strategies. The main question was if and how an intensified transatlantic approach to defence research and development (R&D) and procurement would be developing or not, and if not, what such a failure to gain some access to US defence dollars for their business would mean for hard-pressed European defence industries.

The overwhelming size of the US defence market and the fragmentation of markets in Europe add aggravating structural dimensions to the difficult business prospects in this sector after years of shrinking or stagnating defence spending in Europe that increasingly leaves European players without the necessary critical mass.

In his presentation, Gordon Adams underlined that the transatlantic gaps in military strategy, capabilities and defence spending were getting wider. In this situation, he was critical of the fact that US attitudes to defence-industrial cooperation were still dominated by the traditional buy-American preference. Adams made the case for more transatlantic cooperation but warned that it was not clear yet if the US, as well as the Europeans, would be prepared to draw the necessary consequences from this compelling case and create the necessary conditions for such cooperation to evolve.

He claimed that not just European nations but even the US, in spite of its huge defence budget, would not be able in the future to afford the required rapid military transformation and modernisation on their own. The desired supply-side competition and multitude of technological approaches would fade away unless it was recreated on the transatlantic level. In addition, both European defence spending and the chance to sell defence-industrial products and services to Europe would shrink even more if European defence firms were not to survive. This required giving them more market access to the US and favouring transatlantic industrial partnerships.

The idea underlying NATO's new Transformation Command conflicted with the existing restrictive technology transfer rules. The joint response force will depend on interoperable C4ISR. This can only be achieved with greater US willingness to share such technologies with European partners, including reforming some of the "black box" restrictions that have plagued transatlantic technology cooperation for decades. The allied transformation command will fail in its mission of integrating transformational technologies into European forces if its US staff cannot exchange views and data on key transformational capabilities, due to US technology transfer restrictions.

Burkard Schmitt explained that there was no "European defence industry" as such. We were instead talking about several different sectors with different structures. Therefore the question if Europe's defence industry would survive had to be posed differently: In which of these sectors would there be survivors, and who? While in the aerospace sector there were some cash-generating programmes in the shorter term, it remained unclear where the money for R&D would come from in the mid- and long term.

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Clearly, the low level of defence spending in most European countries was at the heart of the problem, with Germany playing the key role. It was not so much the overall spending level that was to blame but the way in which and on what the available funds were spent. Gordon Adams added that above all properly coordinated and strategically targeted R&D programmes would be important to halt the demise of European defence industries.

Burkard Schmitt and Gordon Adams both found that after the end of the cold war, the transatlantic defence-industrial scene was driven by industry-led cooperation under the pressure of globalisation toward transnational industrial consolidation while governments remained “behind the curve” and failed to grasp and match this trend, especially by removing bureaucratic and regulatory obstacles. Reasons cited included the lack of harmonisation of national armaments requirements, the persistence of national defence market protection rules and the traditional desire to minimise reliance on foreign supplies.

In this situation, European defence investment does not render enough value for money. European nations continue to disagree, however, on the strategy to address the problem. On the one side, the UK is determined to always buy the most appropriate equipment even if this often means going to the US, and tries to exploit efficiencies from deregulation, flexibility, smart procurement and public-private partnership models while preserving competition on a transnational level. On the other side, in France and also Germany, to varying degrees, the desire to preserve a national defence-industrial base is still dominant.

The Letter of Intent process in Europe, geared at creating the proper legal and administrative framework for a successful European defence industry after its transnational restructuring, had at first looked encouraging but it does not make good for the absence of actual programmes. In Burkard Schmitt's judgment, the intergovernmental cooperation process in Europe was bound to fail, and an institutional quantum leap was needed. The defence market should be governed by EU Commission rules but the procurement system should be kept flexible, avoiding a large management agency that would be counterproductive.

Some nations hoped that armaments cooperation with the US, even in a junior partner or mere customer role, could help to gain respect and influence in Washington. It was lamentable, though, that such transatlantic cooperation was pursued on a bilateral basis – inherently weak – and not through European institutions. In this context, Gordon Adams's observation was relevant that even under OCCAR's novel approach to industrial return, there was still no incentive for including additional countries in cooperative projects.

Recent US initiatives that would allow more transatlantic defence-industrial cooperation, including the relaxation of export-control obstacles to defence trade with close allies, equal treatment of qualified foreign-controlled defence firms and harmonisation of related regulations continue to face strong political resistance within the US, both for proliferation fears and national industrial interests. As Gordon Adams stressed, the engagement of BAE Systems in the US was important as an effort to establish bona fides for overseas defence firms in the US with Congress and the Pentagon.

It remained to be seen whether the Bush administration would show political leadership on this issue vis-à-vis opposing forces in Congress and elsewhere. The US tendency to distinguish between “good” and “better” allies was bound to create problems for Europe as France and Germany would probably be treated differently than the UK, undermining the basis for multilateralism and transnational companies.

For Europeans, access to US technology is desirable. For European companies, access to a share of the US defence-spending cake is vital. This raises the crucial question: Does the US have an interest in preserving and strengthening European defence-industrial capacities through more intense transatlantic cooperation that benefits Europe? And would Washington actually be willing to sustain the continued existence of a European defence research and development base in Europe?

In assessing the strength of possible political and military motivations on the part of the US in favour of transatlantic defence cooperation, one obvious argument for such a US interest remains that the cohesion of the North-Atlantic alliance would otherwise suffer. However, the need for interoperability as such would not require the nourishing of a European defence industry if the US were willing to sell its cutting-edge products and the Europeans willing to bankroll such purchases in spite of the lack of technological spin-offs, jobs gains and political autonomy usually associated with home-made defence products.

While Burkard Schmitt believed that there was no need for the US to cooperate for industrial, budgetary or technological reasons, Gordon Adams suggested that there were actually some, though not many network-centric warfare technologies in Europe that would indeed provide attractive opportunities for partnering if existing mistrust of Europe and European technology in the US defence establishment could be overcome and Europeans showed enough flexibility to take advantage of the chances offered in the process of network-centric transformation. The US offer to cooperate on missile defence, however, was purely driven by the political desire to offer incentives for allied political support.

The Russian speaker, Ruslan Pukhov, Director of the Moscow-based Centre for Analyses of Strategies and Technologies, did not submit a written paper. In his oral remarks, he underlined that Russia had inherited 80% of the Soviet Union's defence industry while 20% were now outside the country. This provided Russia with a full, autonomous spectrum of R&D and production capacities. The sector was characterised, however, by pervasive duplication and redundancy and until two years ago the traditional preference for state-run enterprises over more competitive private ones had still been dominant.

After 10 years of rather plan-less restructuring and privatisation, there was still no encompassing vision. The government had decided, though, that in the further course of restructuring it would want to create 10-20 defence holding firms as stock companies with 51% state ownership. The war in Chechnya had determined the priorities for production but also given new impulses for research and development due to increased demand for new equipment such as UAVs, night-vision equipment and joint C3I assets.

With regard to international arms cooperation, Russia had a choice between East and West, and it was likely that both orientations would continue to co-exist. In the past, Russia's international defence-cooperation projects had been failures, mainly because they had been driven by political, not economic rationales. There was now noticeable Indian and Chinese influence based on their desire to use the existing, still superior Russian design and development capabilities, e.g. in the Su-30 and Su-27 programmes. For example, India would pay for the R&D in such programmes, while Russia would keep the intellectual property and also buy the resulting products for itself.

There was also cooperation with EADS, mainly for the manufacturing of spare parts and fuselage components. The experience was that more ambitious programmes such as the Russian/Ukrainian alternative to the A400M did not go through. This had created the feeling in

Russia that cooperation in areas more sensitive than transport, such as missile defence, would also be unlikely to materialise. European cooperation partners, in particular, were seen as no help to Russia in the defence-industrial sector since they had insufficient budgets.

For Russia's defence trade, the most attractive niche was to sell to customers who could or would not buy US or European products, such as the Chinese. Only few such customers however provided economically rewarding markets. Iran, where Russia was risking US ire, was also not paying well. In airlift services, Russians and Ukrainians now held 50% of the world market with the old An-124, good for another 15 years. There would be no new Russian heavy transport plane.

The discussion that followed the introductory speakers' remarks, with participation of EU Commission, EU Military Staff and NATO International Staff officials, touched on a number of interesting issues. One US participant asked why there was not more of an effort among Europeans to “just do it” and concentrate on important niches where the US wasn't ready to share its technology even with close allies, such as JDAMs and UAVs. One reason cited why this strategy wasn't being pursued was that the big European firms were above all focusing their efforts on keeping their role as systems integrators.

There was also some discussion of the motivations behind US companies' purchases of smaller European firms. Opinions differed whether this was just “cherry-picking” made easy by the strong US market power or whether it was part of a deliberate strategic approach for global control of certain strategic technologies. While in many cases, good business opportunities were simply taken, in some cases, including the purchase of German cutting-edge submarine manufacturer HDW, there were most likely other, more strategic considerations involved.

On the main questions raised during the meeting in the context of transatlantic defence cooperation, a certain degree of consensus was forming:

- It was obvious that Europe's approach to the issue had so far lacked adequate top-level political guidance and sustained political will based on a defined set of priorities. Gordon Adams suggested that the choices the UK had made in its defence-industrial policy went in the right direction. Doubts remained, though, if the matter stood a chance in other European countries to be recognised as important enough by politicians and the public for generating sufficient attention and determination.
- It also was apparent that in the future there would be a stronger EU Commission role in this field, including export controls and trade policy. This dimension was not captured by the “dumb” bilateral approach so far pursued by the US in its negotiations with European governments.
- Much could be gained through a coherent European approach to negotiations with the US. First of all, the task would be to influence the ongoing review of defence trade and technology transfer policies and the US debate, especially in Congress, on these issues.
- Essentially, however, the problem would boil down to the need for maintaining a sufficient level of well-directed European spending for defence R&D and procurement.

TRANSATLANTIC DEFENCE-INDUSTRIAL COOPERATION AND AMERICAN POLICY

GORDON ADAMS*

Introduction

Defence industrial cooperation across the Atlantic has fallen on bad days in recent years.

The number of official transatlantic defence has dwindled to a handful, of which the frequently-threatened MEADS air defence system is the most notable.¹ Increasingly, for major defence acquisition programs, such as air transport and missiles, European governments are showing an inclination to “buy European”, while the US tradition of “buy American” remains as hardy as ever.

Industry joint ventures such as Thales-Raytheon Systems have yet to generate business growth. Strategic partnerships, such as that between EADS and Northrop Grumman, have yet to bear significant fruit in the form of access for firms on one side of the Atlantic to the defence market on the other side. The most successful transatlantic market access has gone to the few, largely British defence companies (especially BAE Systems and Rolls-Royce) that have established themselves in the only growing defence acquisition market in the transatlantic region – the United States.

Nor is transatlantic defence cooperation being encouraged by growth in the European defence acquisition market. Although the substantial market shrinkage of the past decade has been largely halted, only the French defence acquisition market seems poised to grow; cuts continue in the UK, Germany, Italy, Sweden, Spain and the Netherlands.² A reversal of this trend seems unlikely in the near future.

There are significant and growing obstacles to achieving a more open and flexible transatlantic regime for defence industrial and technological cooperation. Most of these obstacles are the result of government policies, principally in the United States, but increasingly in Europe, as well. Despite these negative signs for the transatlantic industrial relationship, the logic of stronger defence industrial and technological cooperation remains compelling. For this logic to prevail, however, the transatlantic obstacles will need to be overcome. It is not yet clear that policy-makers are prepared to take the necessary steps, but the policy options are relatively clear.

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¹ Although the F-35 Joint Strike Fighter has a number of European participants, it does not qualify as an official transatlantic program. It is, rather, a US programme with European participants, of which the UK is by far the most equal. JSF is, however, a harbinger of things to come – a dominant US program, whose growth could gradually drive European producers out of the airframe business.

² The British defence budget is slated to grow 1.2% a year after inflation through 2005-2006; French equipment budgets are expected to grow just below 1.0% a year, after inflation through 2008. German defence budgets will remain flat, which will mean decline in constant euro, though a German budget review is currently under way. The Italian defence budget is projected to grow significantly, but much of the additional funding will be dedicated to personnel as a transition takes place to a smaller, all volunteer force. See IISS, "NATO and non-NATO Europe," *The Military Balance, 2002-2003*, pp. 248-49 and Ministère de la Défense, *Programmation Militaire 2003-2008: Project de Loi de Programmation*, Paris: Ministère de la Défense, September 2002.

The case for transatlantic cooperation

Strategic divergence and convergence

Over the 1990s, strategic visions between Europe and the United States began to diverge sharply. The US emerged as the dominant global power and has become a less and less reluctant sheriff in the wake of the terrorist attacks of September 11, 2001. A new, initially hesitant administration is now fully engaged, with forces operating against terrorist on a global basis and a full-scale attack in Iraq waiting in the wings. In service of this engagement, US forces are being transformed for even more global operations, acquiring network-centric technology that puts them years, if not decades, ahead of any other country's capabilities.

In Europe, with Britain and France each deciding to abandon defence autonomy and fully commit to the EU Headline Goal, there has been more dramatic progress toward a common European security policy and defence capability than in the preceding four decades. However, there is still no European strategic vision to accompany the Headline Goal forces. For fifty years the strategic attention of Europe has been focused on European security issues, with declining attention to global security concerns. This has left a large "vision gap" with the United States, with significant impact on comparative capabilities.³

While French and British forces have undergone significant changes – conventional force personnel reductions, reforms, and, in the French case, professionalisation – few other major European countries, especially Germany, have set out on the road of trading personnel for real capability. Shrunken European defence budgets remain heavily focused on personnel spending. Acquisition euros are in short supply and research and development budgets fall very short both of US funding (roughly four times as great) and of a level that would produce network centric or transformational technologies in Europe.

With September 11 and the emergence of proliferation and terrorism as major security concerns, however, a new common strategic interest is emerging across the Atlantic. The old NATO rationale is gone, but the Prague summit will reflect a new concern, beyond ensuring the continued stability of troubled European regions. Proliferation and the threat of weapons of mass destruction delivered by multiple means concerns Europe as much as it does the United States. And the terrorist threat, while not new, now poses a danger of asymmetrical nature and significant magnitude both to Europe and the United States. Confronting these threats together is clearly preferable to diverging policies across the Atlantic. Even, in fact, especially in coalitions of the willing, the partners continue to need interoperability, especially as network centric technologies become central to military operations.

The logic of cooperation is having an impact on governments in the NATO region, as reflected at the Prague summit. The US Missile Defense Agency is explicitly encouraging allied participation in the BMD program, a goal underpinned by NATO-funded research efforts in missile defence. The NATO summit has endorsed a reframing of the 1999 Defence Capabilities Initiative that focuses on interoperability investments, especially those that support network-centric warfare, such as secure command, communications and information. The US has proposed creating a NATO rapid reaction force, capable of conducting out-of-area operations, which is likely to be adopted by the Alliance.⁴ Such a force will require

³ See Gordon Adams, "Seeking Strength in Numbers: The European Allies and US Defense Planning," in Cindy Williams (ed.), *Holding the Line: US Defense Alternatives for the Early 21st Century*, Cambridge, MA: MIT Press, 2001, pp.79-117, and Robert Kagan, "Power and Weakness," *Policy Review* 113 (June-July 2002).

⁴ A prototype of such a force has been described as "a small, elite, mobile expeditionary force...maintained at high readiness, capable of swiftly projecting power to distant areas outside Europe and then conducting

dedicated funding and interoperable technologies, increasing the incentive for transatlantic collaboration in these areas. Finally, NATO may, once again, endorse a common air-ground surveillance system (AGS), with a possible transatlantic technological solution that requires transatlantic industry collaboration.

Budgetary pressures

The limited European defence budgets provide a particularly compelling rationale for Europeans to seek a flexible transatlantic industry and technology regime. Limited budgets for defence investment, in particular, could prove to be the Achilles' heel of the EU effort to create a Headline Goal force with effective transportation, air power, precision-guided munitions, unmanned aerial vehicles, and C4ISR. The NATO summit decisions could add to this budgetary pressure. Europeans will want to be certain that investment dedicated to a new NATO RRF does not compete with investments required for the Headline Goal force.⁵ However, the new joint force and the AGS programme constitute clear incentives to transatlantic industrial cooperation. Access to US defence technologies through transatlantic cooperation could provide substantial cost savings to the Europeans. Combined with reprioritisation of European budgets to focus on transformational technologies, resources could be focused on the most compelling capability needs.

Despite rapid defence budget growth, the US could share this interest. Even projected US acquisition budgets are inadequate, given the dual requirements for equipment modernisation and transformational technologies, combined with growing personnel and operational costs. As the US budget deficit grows, future defence budgets will come under further pressure. Stronger, competitive transatlantic options for defence equipment could be part of the answer to this budget dilemma.

For both the US and Europe, a more integrated industry and technology regime that encouraged industry collaboration would provide defence policy-makers with enhanced choices, competition and flexibility in defence acquisition. As industry has consolidated, the number of providers of defence platforms has declined, constraining defence ministry options in Europe and for the DOD. The advantages of competition, in pricing, technical capability and timing, are slowly being lost. A broader array of technical options would be available for defence planners and costs could be better controlled, a significant advantage within constrained investment budgets.

Technology advantages

The communications, information, networking, sensing and satellite technologies that are critical to network centric warfare and combined operations are widely dispersed and commercial in origin. The capacity to integrate these technologies into military applications is less dispersed, limited largely to American and a very few European companies. European firms, particularly Thales, BAE Systems and EADS, possess the commercial technologies in abundance and are increasingly capable of integrating those technologies in defence systems.⁶ There are clearly advantages to greater flexibility in the technology transfer regimes between

demanding combat operations with US forces in a wide spectrum of contingencies." See Hans Binnendijk and Richard Kugler, "Transforming European Forces", *Survival*, Vol. 44, No. 2 (Autumn 2002), p. 118.

⁵ Binnendijk and Kugler argue that the NATO force will require minimal resources – perhaps two% of current European NATO defence spending – and draw largely on existing capabilities. See source above, p. 129.

⁶ See Frost and Sullivan, "European Command, Control, Communications, Computers and Intelligence, Surveillance and Reconnaissance (C4ISR) Market," Report B055-16, 2002 and the panel reports of the European Institute' Interoperability Project, 2001.

these two continents and significant downsides to either side shutting itself off from the technologies available to the other side. A flexible regime across the Atlantic for such technology transfers, combined with more common barriers to its dispersal elsewhere, could be in the interests of both.

An industrial logic

As developments in the European shipbuilding, ground systems, and aircraft industries suggest, it is increasingly difficult for European industry to sustain itself on European acquisition spending, alone. Given such limits, the incentive for European defence industries to gain access to the US market is growing. Major US defence firms, while less dependent on the international market, are losing their historic access to the European market. Traditional access to Europe through direct sales is no longer acceptable. Only partnerships with European firms will provide future access and these are viable only if there is reciprocity in the policies governments pursue on both sides.⁷

US and European policies create obstacles

The defence industry on both sides of the Atlantic has recognised and responded to these incentives for greater cooperation for a number of years now. The same cannot be said for government policies, which create growing obstacles to a more flexible transatlantic regime.

The United States

The barriers to entry into the American defence market are major obstacles to a more transparent, open and flexible transatlantic defence industrial relationship. They are largely based on government policies, many of which have existed for decades and are difficult to change. US Defense Department acquisition and defence trade policies are major obstacles. They include a strong and understandable DOD preference for buying US defence technologies, which are seen as significantly more advanced than comparable European technologies. There is also a strong DOD preference to protect US defence technological leadership and carefully restrict European access to US technical know-how. These preferences are reinforced by a guarded DOD approach to technology transfer and direct foreign investment by non-US defence suppliers in R&D and production facilities in the United States.

Beyond DOD, the State Department, which administers the review of more than 45,000 export license requests a year, takes a generally conservative view of the export of technologies on their Munitions List to any other country, including members of the EU. Export control rules written during the Cold War have been extended since then, with the policy bureaucracies remaining concerned about the risk of the loss of technological superiority and the proliferation of capabilities that could be used, one day, against the United States.

There are also substantial hurdles in the way of direct non-US investment in the US market. While some firms, notably BAE Systems and Rolls-Royce have succeeded in overcoming these barriers, few other European firms have done so. The Committee on Foreign Investment in the United States (CFIUS) system for screening non-US direct investment in the US economy can be a deterrent to entry. The security rules surrounding such investment,

⁷ There is a growing tendency among US prime contractors to focus on the short-term growth in US defence acquisition and to set aside, for now, this transatlantic interest. Changes in European acquisition practices could further constrain access to the European market, however.

controlled by the US Defense Department, essentially cut US operations off from their non-US parents, are a further deterrent.

Executive branch policies in Washington are mirrored by political concern in the US Congress, where defence technology export licensing and technology transfer issues and direct investment by European firms in the American defence economy have been hotly debated over the past decade.

Substantial effort was invested in the late 1990s in trying to overcome some of the more frustrating obstacles to transatlantic defence industry collaboration.⁸ The Defense Department's system for reviewing export licenses was substantially streamlined, and a more flexible special security arrangement negotiated with Rolls Royce's US operations. Secretary of Defense William Cohen negotiated Declarations of Principle (DOP) on reforms in defence trade relationships with the government of Australia and the United Kingdom. After considerable struggle, broader export licensing regimes were introduced at State. In particular, following the May 2000 announcement of the Defense Trade Security Initiative (DTSI), other countries may be eligible to negotiate a waiver for certain trade under the International Traffic in Arms Regulations (ITAR), which govern State's process for export licenses, provided those negotiations led to a compatible export control regime in that country.

The US reforms of the late 1990s largely ground to a halt with the arrival of a new administration in Washington, DC. The Defense Department has not continued the previous administration's effort to further reform its internal licensing process and no new special security arrangements have been negotiated with non-American subsidiaries in the United States. DOD has been reluctant to release technologies that might tie into weapons of mass destruction or the means of delivering WMD. Although a DOP has been negotiated with Sweden, there appear to be no plans to initiate such talks with other governments. With respect to specific technology transfers, DOD (and State) have allowed German access to UAV technology, particularly the Global Hawk airframe, and for Italy with respect for the Predator UAV, but there has been no broader policy decision. In general the tone of DOD policy with respect to transatlantic defence industry cooperation has been less forward leaning than in the prior administration.

The State Department has continued negotiations with the UK and Australia on an ITAR exemption as described in the DTSI, but those talks continue to proceed very slowly. The greatest obstacle continues to be a cautious State Department view about whether the UK must legally enforce US third-country transfer rules and regulations or whether a British government policy with the same effect is adequate. The agreements may come to a conclusion in the next few months, but will face implementation obstacles in the US, given Congressional resistance to any ITAR exemptions. There has been no consideration given to opening a multilateral dialogue on export controls and technology transfer questions with the leading European arms producers. A part of the State Department Munitions List, which itemises controlled products and technologies, has been reviewed, but there has been little attempt to actually reduce the size of the list itself. Investment rules have not been changed. The DOS bureaucracy that processes export licenses has been streamlined, connected electronically to other agencies with equities in the license decision, and has received an increase in personnel. The shape of its underlying task has not been changed, however.

⁸ For a discussion of the US reform process between 1996 and 2000, see Gordon Adams, "Fortress America in a Changing Transatlantic Defence Market", in Burkhard Schmitt (ed.), *Between Cooperation and Competition: The Transatlantic Defence Market* (Chaillot Paper No. 44), Paris: Western European Union, January 2001.

Until late 2002, there has been little attention paid by the new administration to questions of transatlantic defence industrial and technological cooperation. Policy-makers were preoccupied with the war on terrorism, which actually increased concern over the possible release of technology that might be used for weapons of mass destruction or ballistic missiles. In October 2002, the National Security Council finally began a long-delayed review process, issuing instructions to agencies to review the broad agenda of defence trade, technology transfer, transatlantic technology cooperation, and US arms transfer policies, export controls and advocacy. Details of the review are not publicly available, though it is said to cover the definition of options for closer cooperation, the changes in policy, regulation and law that might be necessary for such cooperation, and the risks that might accompany cooperation with specific countries.

Western Europe

Although it is not the purpose of this paper to examine European policy closely, it is worth noting that the historically open European defence market may be in the process of closing substantially, as part of the “Europeanisation” of overall defence policies and defence industrial policies, in particular. The EU commitment to the Headline Goal, declining European defence budgets, and the consolidation of the European defence industry are having an impact on European defence acquisition decisions and emerging defence industrial and technology base. Gradually, a tendency may be emerging to protect the European defence industrial and technology base from American domination, and to sustaining a European industrial and technological capability to sustain and support the broader security goals of a uniting Europe.

The “buy-European” preference may be indicated by the European commitment to the Meteor missile and the A-400M transport aircraft. These two decisions could signal a future in which EU members buy major hardware platforms from European suppliers, with smaller procurements being more transatlantic.⁹ European governments have encouraged the creation of European counterparts and competitors to US defence industrial giants to meet these needs and, as the Headline Goals of the ESDP have been more sharply defined, these capabilities are being looked to for the necessary equipment and technologies, including air transport, sealift, precision-guided munitions and unmanned aerial vehicles.¹⁰

There is also a growing cross-national trend to create European-level institutions and policies to provide the legal setting and road map for European defence acquisition policies and defence industry behaviour. Such harmonisation is seen as necessary for a healthy, cross-national industrial base, as well as to ensure that this industry does not escape governmental scrutiny and controls.¹¹ Under the July 2000 “framework agreement”, six countries (UK, France, Germany, Italy, Sweden and Spain) have undertaken to harmonise practices and regulations on export controls, security of supply, the security of classified information and

⁹ They are consistent with a longer European history of creating and subsidising cross-border defence platforms, including the Eurofighter, the NH-90 and Tiger helicopter programs, and a large number of MBDA missile programs.

¹⁰ See Gordon Adams, “Convergence or Divergence? The Future of the Transatlantic Defence Industry”, in Simon Duke (ed.), *Between Vision and Reality: CFSP's Progress on the Path to Maturity*, Maastricht: European Institute for Public Administration, 2000, pp. 161-208.

¹¹ Author's interviews with government officials in France, Germany and the UK, summer 2001.

industrial security, defence research and development, the treatment of technical information, and defence requirements.¹²

Four of these nations – France, Germany, the UK and Italy – have also created a joint defence acquisition organisation in 1996 – known as OCCAR for its French name (Organisation Conjointe de Cooperation en Matière d'Armement) to manage the growing number of collaborative among these countries, including, ultimately, the A400M. OCCAR is increasingly seen as the prototype of a European defence acquisition agency, which may emerge in the EU framework with expanded membership sometime in the future.¹³

As the EU member states protect employment in the defence industry and move to stimulate a European R&D technology base in advanced defence technologies, two tendencies may appear. First, European level institutions will be increasingly tasked with regulatory responsibilities for this activity.¹⁴ As one EU official has put it: “You cannot have a defence policy for 15 and an industrial base harmonised at six.”¹⁵ Second, this emerging European industrial and technology base will be protected from the United States. European governments will be willing to pay a premium for defence equipment, and acquire slightly less advanced technology, more slowly, in order to support this base.

What is the alternative to the “two fortresses”?

The goal of a more flexible transatlantic regime would be an industrial and technological relationship that is more reciprocal, integrated and transparent, while ensuring that critical defence technologies leak as little as possible to potentially threatening states. It should be based on first principles:

- **A multilateral approach.** Given the evolution of the European market, industries and institutions, it is increasingly important that this relationship take on a *multilateral*, as opposed to a bilateral character. The days of serial bilateral negotiations on defence industrial and technology issues are numbered; a chain of bilateral agreements will be broken by the reality that the Europeans are rapidly evolving a multilateral process for such issues. NATO is not the best forum for such negotiations; the European process will eventually be institutionalised in the European Union. Negotiations should take

¹² The intent of this process is to “create the political and legal framework necessary to facilitate industrial restructuring in order to promote a more competitive and robust European defence technological and industrial base in the global defence market and thus to contribute to the construction of a common European security and defence policy.” Preamble to the *Framework Agreement between the French Republic, the Federal Republic of Germany, the Italian Republic, the Kingdom of Spain, the Kingdom of Sweden, and the United Kingdom of Great Britain and Northern Ireland concerning Measures to Facilitate the Restructuring and Operation of the European Defence Industry*, signed at Farnborough, United Kingdom, 27 July 2000.

¹³ Interviews in Brussels, Paris, Berlin and London, Summer 2001. See also Christophe Cornu, “Fortress Europe: Real or Virtual?”, in Adams, Cornu, James and Schmitt, *Between Cooperation and Competition: The Transatlantic Defence Marke*, (Chaillot Paper No. 44), Paris: Institute for Security Studies of the Western European Union, January 2001, pp. 77-80.

¹⁴ The European Union does not yet have a coherent defence industrial and technology policy, but there is considerable interest in the Commission in having such a policy and an emerging interest in the Council of Ministers, as well. Current Commission responsibilities for industrial policy, dual-use research and development, public procurement, customs policies, and dual-use technology exports controls will inevitably lead to greater involvement in the defence industrial and technology arena. The Council, through its Armaments Policy committee, currently has what responsibility exists at the EU level. See Commission of the European Communities, *Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on Implementing European Union Strategy on Defence-Related Industries*, COM(97)583 Final, Brussels, December 4, 1997, Annex I, p. 2.

¹⁵ Interview in Brussels, summer 2001.

place directly between the North Americans and a European grouping, four, six or the EU, as appropriate.

- **A broad strategic agenda.** The issues in such a negotiation should be approached as a *strategic agenda*, not as discrete parts. All are important to creating the new transatlantic regime; treating them together will provide opportunities for tradeoffs in negotiations that can lead to a successful outcome.
- **A search for best practices.** The participants will need to *check their superiority at the door*. One key reason for the slowness of the US/UK ITAR negotiations has been the US insistence that the Europeans level up their export control regimes by incorporating US statutes and practices into British law. There are areas in which the Europeans may have best practices. The parties need to do best practice research with each other, not seek extraterritorial enforcement of national legislation.

The negotiations themselves should address a number of issues:

- **Strategy:** The United States and its European allies should invest in a common discussion of the elements of global strategy that they share: shared responsibilities for stability operations in Europe, common approaches to combating terrorism, and joint policies on the proliferation of weapons of mass destruction. This dialogue needs to take place within NATO, but also needs to be engaged between NATO and the EU as the latter shapes the Headline Goal force and its equipment needs.
- **Military planning:** Strategy review processes on both sides of the Atlantic need to draw the others into their national discussions, with a more joint set of conversations over defence requirements, force planning, and hardware objectives in order to define equipment needs that could be met by consortia or partnerships among industrial suppliers and technology companies on both sides of the Atlantic.
- **Budgets:** European defence acquisition resources need to be increased or seriously reallocated. British and French decisions have already refocused budgets toward acquisition; further force tradeoffs may not be possible. To ensure continued leadership in the EU and to focus on the technological target, Germany, in particular, needs to make a greater budgetary effort overall and a major internal reallocation. Budget planning cycles among key countries should also incorporate participation from the other countries.
- **Research and Development:** R&D will be the heart of the solution to the capability gap. The Europeans need to grow their R&D budgets and undertake much more significant harmonisation of than they have to date, if R&D investments are to be cost-effective. There is a need for a more serious transatlantic defence R&D dialogue, as well. Today, there is scepticism in the US that the Europeans have much to offer technologically. Among the Europeans there is a sense that the US does not appreciate the technological assets the Europeans bring to the table. A dialogue is urgently needed to identify key technologies on both sides that are advantageous to the other and shape ways by which those advantages can be harvested.
- **Export controls, technology transfers, industrial security:** The American export control system is broken, its technology transfer rules are increasingly self-defeating, and industrial security is systematically compromised and strained by emerging transnational defence companies. Export control reforms in the United States are imperative, including shrinking the Munitions List to critical items, instituting greater corporate self-governance with government audits of performance, and creating a

stronger appeals process for disagreements. The European system of controls is going multilateral, a negotiation into which the United States has no input. Bilateral negotiations cannot work without a multilateral level of discussion between the US and the Framework Agreement six.

- **Direct foreign investment:** There are distinct advantages to the DOD from greater transatlantic defence investment and industry advantage in access to the European market, for partnerships, investments and government sales. There is a clear win/win to be had from shaping multilateral rules of the road. The American process needs streamlining, with more supple rules for firms and countries that do a respectable job of protecting technology flows. The defence security arrangements surrounding non-US-owned assets in the United States need review and reform, building trust, rather than separation, across the Atlantic. The European need to be drawn into this dialogue in order to ensure national and EU policies on direct foreign investment and competition do not inhibit reciprocal access to the European market.
- **Dual-use technologies:** US acquisition rules that overburden commercial firms with contracting and reporting requirements currently imposed on defence contractors will ultimately deny DOD access to the technologies it needs. The DOD needs to undertake a “forced march” through the undergrowth of rules and regulations it still has in place. European rules on dual-use technology appear more flexible and should be part of a dialogue on this subject. That dialogue will inevitably involve the EU, since dual-use rules are within the Commission's competence, as related both to research and development and export controls.
- **Acquisition rules:** It will be difficult to reshape acquisition regimes among the Europeans, let alone across the Atlantic. This effort should begin, however, as acquisition practices and rules make cross-border procurement difficult and can discriminate against non-national suppliers. No defence contractor will happily engage in a partnership bid if the rules are complex, overwritten or unclear. The US should engage the member countries of OCCAR in a common review of acquisition practices, recognising that no country's system provides a perfect guarantee of on-time, within cost, on performance military hardware. The OCCAR members need to ensure that OCCAR rules and practices are non-discriminatory with regard to non-member firms; US acquisition regulations need review to ensure the same is true in DOD.
- **Industry consolidation:** Both Europe and the United States face further rationalisation of a defence industry that is largely consolidated at the system integrator level. Industry recognises that further rationalisation of capacity will be important in order to procure systems cost-effectively within budgetary constraints. The acquisition systems on both continents should not create incentives for contractors to retain excess capacity, but should encourage capacity shrinkage by allowing some contractor retention of the savings gained by doing so. A transatlantic dialogue would facilitate the exchange of lessons learned in this process.
- **Industry's role:** More than ever before, the transatlantic regime will be shaped by company initiatives and behaviours. Governments are currently behind the curve on industry discussions of joint ventures, strategic partnerships and acquisition opportunities. Rather than discourage such conversations by political intervention or the enforcement of restrictive rules on exports and technology transfers, the governments should be ahead of the curve, stimulating such discussions and encouraging transatlantic initiatives to provide hardware and system options meeting

defence requirements. The American industry has a major responsibility here, to take the initiative, lobby for changes in the US rules and processes already discussed, and provide transparent expertise on how a transatlantic regime should be shaped. The European industry has a similar responsibility to help ensure that the Framework Agreement, OCCAR and EU processes ensure reciprocal access for Americans to the European market. Industry is generally reluctant to step ahead of government willingness to change; in this case, government policy will benefit from industry initiative and can create a multilateral, transatlantic environment in which industry thrives, government benefits and security is enhanced.

This is a daunting agenda. The alternative, however, is the gradual shrinkage of the transatlantic defence market, under political and bureaucratic pressure, the loss of interoperability and a growing technology gap between US and European militaries, and a loss of technological opportunity for the militaries of both sides.

EUROPEAN AND TRANSATLANTIC DEFENCE-INDUSTRIAL STRATEGIES

BURKARD SCHMITT^{*}

The history of transatlantic armaments cooperation goes back to the beginning of the Cold War. Since then, however, the nature of cooperation has changed considerably, from simple licensing of US systems to Western Europe in the 1950s and 1960s to co-production arrangements in the 1970s, followed by government-to-government joint development in the 1980s and 1990s. In recent years, industry-led cooperation has become the most prominent feature.

The changing nature of cooperation reflects the changing motivation of the two sides. During the first decades after World War II, the US helped to rebuild an exhausted or destroyed West European defence industry in the face of the Soviet threat. The more European NATO allies recovered economically, the more they sought a more balanced partnership with the US. After the end of the Cold War, interoperability became a major argument for enhanced cooperation. Since the late 1990s, the technological and financial consequences of globalisation have pushed industry towards transnational consolidation and closer transatlantic ties, whereas governments have had difficulties matching industry-led initiatives.

In spite of many good reasons for more transatlantic cooperation and numerous initiatives to achieve that objective, the record is rather poor. Arms trade across the Atlantic has remained primarily a one-way street from the US to Europe, with few cooperative projects having actually been set up and even fewer having been considered as a success. There are several reasons for failure:

- Since the strategic and force planning processes are conducted independently, harmonisation of military requirements is almost impossible.
- Market access for foreign companies remains difficult: Whereas the openness of European defence markets differs greatly from country to country, the US market is well protected against both foreign investments and sales. Moreover, complex rules and procedures for defence exports represent major hurdles for industrial cooperation.
- In the US, both the political leadership and the armed forces are extremely reluctant to rely to any extent on foreign suppliers. On the other hand, in Europe there is widespread anxiety in many arms-producing countries about the possibility of US market hegemony. Both attitudes make it very hard to create a positive political climate for transatlantic armaments cooperation.

Even more important, transatlantic cooperation is hindered by a fundamental imbalance of power between the US and Europe:

- The US is by far the biggest defence market of the world. In 2001, the DoD spent more than twice as much on defence as all EU members combined. With an increase in US defence spending of \$48 billion for FY 2003, and further increases planned from \$396.8 billion in 2003 to \$469.8 billion in 2007, the transatlantic financing and procurement gap will continue to grow over the next few years.
- There also fundamental structural market differences. Due to fragmented defence markets and disparate procurement policies, European countries pay a high price for

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costly duplications and face great difficulties in efficiently combining their resources. As a consequence, the EU as a whole gets less value for its money than the US. Moreover, the investment profiles are different, the US spending not only in absolute, but also in relative terms more on procurement and R&D than Europeans.

- The US has such enormous financial resources, defence-industrial assets and military capabilities that they simply do not need armaments cooperation or arms imports. From the US perspective, the potential benefit of transatlantic cooperation is, at best, the cohesion of the Alliance. This argument, however, is hardly sufficient to overcome bureaucratic and political resistance. The same is true for interoperability: For many in the US, interoperability within the Alliance could best be achieved if Europeans simply bought US products. The fact that the US can conduct the whole spectrum of military operations without any allied contribution does not help to convince the Administration, Congress and armed forces that they need to suffer the trials and tribulations of transatlantic cooperation.
- In Europe, the situation is, again, completely different: Even the most important arms-producing countries cannot afford to maintain a purely national Defence Industrial Base (DIB). With the exception of certain technological niches, they need international cooperation to develop and produce high-tech weaponry. In this context, access to US technology is in general considered highly attractive. Moreover, there is a strong European interest in interoperability as the prerequisite for coalition-building and therefore for political influence in Washington. However, the lack of financial resources, national industrial interests and the difficulties involved in transatlantic ventures greatly reduces European interest in cooperating with the US.
- Last but not least, the US pursues an explicit and coherent strategy for defence-related industries, aimed at technological superiority in all relevant sectors. European countries, in contrast, do not have the means to implement such a strategy individually and lack the political consensus to develop one collectively. As a consequence, Europeans have difficulties in developing common positions towards the US on armaments issues.

The imbalance between the US and Europe can also be seen at the corporate level. The enormous consolidation process that took place from 1993 to 1997 within US industry reinforced European anxieties about the threat of US market hegemony. Facing competition from giants such as Boeing-McDonnell Douglas, Lockheed-Martin and Raytheon, Europe's national champions and their respective governments (finally) began to accept cross-border integration as the only way to avoid being squeezed out of the market and/or forced into unbalanced subordinate partnerships. The main result of the restructuring process that followed was the creation of three big groups, EADS, BAE Systems and THALES, each of them linked to each other and to the remaining groups by numerous international joint ventures.

This industrial movement, in turn, triggered the so-called Letter of Intent (LOI) process between the governments of the major European arms-producing countries (France, Germany, Great Britain, Italy, Spain and Sweden). In July 2000, the six partners signed a Framework Agreement covering (1) Security of Supply, (2) Transfer and Export Procedures, (3) Security of Classified Information, (4) Research and Technology, (5) Treatment of Technical Information and (6) Harmonisation of Military Requirements. In these six areas, the partners committed themselves to create a more homogeneous regulatory framework in order to improve market conditions for an increasingly transnational industry.

However, and in spite of all its potential virtues, the Framework Agreement does not actually establish a common armaments policy. On the contrary, armaments remain in the national domain, with defence industrial interests and strategies still diverging.

- Among the six LOI countries, France is traditionally the most ambitious about Europe becoming an autonomous political actor (although its partners often suspect the real objective is simply to use Europe as a means to achieve national ends). In the 1990s, France accepted both privatisation and internationalisation of its defence industry as indispensable, combining market orientation of companies with the politico-strategic objectives of the government. Therefore, France has been a driving force behind the restructuring of Europe's Aerospace and Defence Electronics sectors. *Aérospatiale-Matra* was brought into *EADS* and *THALES* (formerly *Thomson-CSF*) transformed into an international player with strong links to the UK (through the acquisition of *Racal*). In the future, the French government will probably try – again – to bring *Dassault* into a wider European structure and to find a new reference shareholder for *THALES*. The main challenge, however, will be land armaments and naval shipbuilding, where the privatisation of *GIAT* and *DCN* is still pending. The poor shape of the two former arsenals represents not only an important financial burden upon the French government, it is also a major obstacle to greater openness of the French defence market and makes it *de facto* impossible for Paris to push for European mergers (since both companies are rather unattractive as potential partners).
- The UK's industrial policy is characterised by a “value for money” policy, which includes relative openness of its defence market for foreign competitors. This openness also compensates for a growing lack of competition in the national market. In fact, after the takeover of *GEC Marconi* by *British Aerospace* and the recent acquisition of *Vickers* by *Alvis*, there are two national champions left which distort the market-led approach that the British claim to champion. To counterbalance this dominance and to create a second “national” defence electronics supplier competing with *BAE Systems*, London accepted, for example, the takeover of *Racal* by *THALES*. Competition may also come from American companies that regularly team-up with British firms for bids in the UK. Transatlantic cooperation in general is welcomed not only for political reasons, but also as a means to benefit from US technology.
- In Germany, the largest part of the aerospace industry is now integrated into *EADS*. The government has failed, by contrast, to convince land armament and naval shipbuilding industries to follow the same approach – first national consolidation, then European integration. Germany's leading land systems companies – *Krauss-Maffei* and *Rheinmetall* – continue to resist any political pressure to merge. In naval shipbuilding, government plans have also failed. Instead of joining forces with *Thyssen Krupp Industries*, *Babcock Borsig* sold its 75% share in *HDW* to the US investment fund *Equity One Partners*. Since *HDW* is a world leader in conventional submarines, this deal has stimulated a debate about a sell-out of German key technologies. Many observers now fear that *Krauss-Maffei* could become the next candidate for a politically incorrect takeover.
- Italy, Spain and Sweden have all tried to integrate their defence industrial assets into wider international structures, without pursuing a clear European preference. The Spanish government has integrated *Casa* into *EADS*, but preferred *General Dynamic's* bid for *Santa Barbara* over *Rheinmetall's* offer; the Italian government has pushed *Finmeccanica* – with more or less success – to integrate its units into European joint

ventures, but left the A 400M programme and joined the F-35 programme. In Sweden, certain industrial elements have been linked to European networks (see Saab), whilst others have been sold to US investors (Bofors).

Industrial policy is only one aspect of largely divergent armament policies in Europe. Another example is the somewhat uncoordinated way in which the LOI countries have embarked on bilateral negotiations with the US on regulatory issues. In fact, industrial consolidation in Europe, together with the LOI process and the development of ESDP, alarmed Washington about the possibility of an emerging “Fortress Europe”. The perceived threat of a closed European market, combined with the risk of the lack of any true competition in the US market, pushed the Clinton Administration to launch two initiatives: (a) the Defense Trade Security Initiative (DTSI) aimed at streamlining the US export control system, and (b) bilateral negotiations with certain allies on a “Declaration of Principles on defense equipment and industrial cooperation” (DoP).

Whereas the DoP is de facto a bilateral version of the European LOI, covering a broad range of defence trade issues, the DTSI is comprised of 16 procedural reforms to the US export control regime. Moreover, it includes the possibility for certain qualified countries to enter into negotiations aimed at granting ITAR-license exemptions for unclassified exports to the government and to companies identified as reliable.

Up until now, the DoPs have been signed with the UK; Australia, Norway, Spain and the Netherlands, whilst negotiations with Italy seem to be well advanced, whereas discussions with Germany and France are, at best, at an early stage. So far, the UK is the only LOI-country with whom the US has begun to negotiate a binding export control agreement. ITAR-talks with additional partners are envisaged only after negotiations with the UK have been completed. However, under the Bush Administration these transatlantic discussions have apparently lost momentum, their future therefore being unclear. Even with the UK, negotiations on export controls seem to be experiencing difficulties. However, in general, the different stages of negotiations with the partners suggest that Washington still makes a distinction between “reliable” and “less reliable” allies.

Sooner or later, this distinction might create problems for the compatibility of the *multilateral* LOI system and the *bilateral DoP* approach. It remains to be seen how transatlantic arrangements would interact in practice with the LOI Framework Agreement. However, at least in certain areas, bilateral agreements with the US might complicate a system whose purpose is precisely to simplify and facilitate European cooperation. For example, could a European Transnational Defence Company qualify for an ITAR exemption if only one of its home countries has an export control agreement with the US? Or, would the ETDC be obliged to create new Chinese walls between its different sites, thereby limiting its internal integration and acting against the philosophy of the LOI process?

To operate in such an uncertain and fluid environment is certainly not easy for European industries. As has been seen, a European Armaments Policy and a common defence market are still a long way off, and defence budgets in Europe remain flat. The enormous difference between budgets in Europe and the US represents an irresistible incentive for European companies to attempt penetration of the US market. Indeed, access to the US has become a major strategic goal for all big industrial players in Europe.

There are different ways to achieve that objective:

- Given the predominant buy-American policy, direct sales of European products to the US armed forces will probably remain extremely rare exceptions;

- Jointly developed defence systems under a government-to-government agreement will remain exceptions as well; European budget constraints on the one hand, and difficulties to harmonise the military requirements across the Atlantic on the other, will continue to limit the possibilities for intergovernmental projects.
- Teaming arrangements with US prime contractors for specific US will be politically easier, in particular if the European contribution is limited to sub-systems and components. However, the cost-effectiveness of these industrial arrangements depends to a considerable degree on the regulatory framework that governments agree on.

Another possibility to penetrate the US market is to buy an American company and to become a “national” supplier to the Pentagon. British companies, in particular BAE Systems, have pursued this strategy extensively and with a lot of success. For continental European companies, however, this option has been politically unrealistic so far, and there are no signs that this might change in the near future. What we have seen, by contrast, is a multiplication of joint ventures (Raytheon-THALES) and strategic alliances (EADS-Northrop Grumman).

In land armaments and shipbuilding, the situation is different. By contrast to aerospace and defence electronics, trans-European consolidation has failed in these sectors, leaving European companies in a rather weak position vis-à-vis their US counterparts. As the Santa Barbara and the HDW takeovers have demonstrated, US investors have therefore a good chance simply to “cherry-pick” the European defence industrial base.

To conclude, there are not many reasons to be overly optimistic about the future of transatlantic armaments cooperation. Cooperation will certainly continue, but its intensity will probably remain limited by persistent political obstacles. Moreover, cooperation will be mainly industry driven. If they have a commercial and/or a technological interest, companies can be quite innovative in dealing with bureaucratic and regulatory hurdles. In particular at the less visible – and therefore politically less sensitive – sub-system and component level, closer ties are indeed probable. On the other hand, even the big European companies will only be able to cooperate on an equal footing with their US counterparts if they maintain their capacities as system-integrators and if they remain at the cutting edge of technology – not in all, but in specific key areas. This, in turn, will only be possible if European governments keep at least a certain level of R&T funding and if they – finally – come to a common European strategy for their defence-related industries.

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The Centre for European Policy Studies (CEPS) and the International Institute for Strategic Studies (IISS) joined forces late in the year 2000, to launch a new forum on European security policy in Brussels. The objective of this *European Security Forum* is to bring together senior officials and experts from EU and Euro-Atlantic Partnership countries, including the United States and Russia, to discuss security issues of strategic importance to Europe. The Forum is jointly directed by CEPS and the IISS and is hosted by CEPS in Brussels.

The Forum brings together a select group of personalities from the Brussels institutions (EU, NATO and diplomatic missions), national governments, parliaments, business, media and independent experts. The informal and confidential character of the Forum enables participants to exchange ideas freely.

The aim of the initiative is to think ahead about the strategic security agenda for Europe, treating both its European and transatlantic implications. The topics to be addressed are selected from an open list that includes crisis management, defence capabilities, security concepts, defence industries and institutional developments (including enlargement) of the EU and NATO.

The Forum has about 60 members, who are invited to all meetings and receive current information on the activities of the Forum. This group meets every other month in a closed session to discuss a pre-arranged topic under Chatham House rules. The Forum meetings are presided over by François Heisbourg, Chairman of the Geneva Centre for Security Policy. As a general rule, three short issue papers are commissioned from independent experts for each session presenting EU, US and Russian viewpoints on the topic.

The Centre for European Policy Studies (CEPS) is an independent policy research institute founded in Brussels in 1983, with the aim of producing sound policy research leading to constructive solutions to the challenges facing Europe.

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