After the crisis - Convergence versus Divergence

Session 1: European Defence — Integration or Bilateralism?

Democratic governments have to be mindful of the concerns of their constituency; in times of economic crisis, job losses are rapidly coming to the fore. There are strong incentives to find solutions at the national level, setting aside European commitments. This is particularly true for the defence industry, which remains a matter of national sovereignty.

Even if we agree that some contingency measures can be taken locally, the question remains as to how to limit them and stay the course in terms of long-term European cooperation, if not integration? How can we maintain the level of confidence necessary to make painful decisions that could damage national public opinion by giving jobs to the workforce of a European partner state?

Are there lessons to be learned from the creation of EADS — and/or from Thales' multi-domestic strategy?

Is it possible to develop "win-win" strategies in times of economic turmoil? And what role could the EU play?

➢ Crisis of globalisation: the return of protectionism?

The world economy was being run on the premise that market forces and competition are the best regulators. Will the G20 be able to introduce some sort of governance? How long can free trade be maintained without establishing a stable and fair monetary system?

With the exception of Germany whose export performance is in a better position, Western countries are already facing long-term deficits in the balance of their commercial trade with China and losing jobs in their industrial sectors.

The global economic crisis has worsened this situation in the West, while most Asian economies have avoided recession and are growing more rapidly. Whereas European countries seem to have a 1.7-2% sustainable growth rate, Asian nations, on average, enjoy a 5-7% rate.

How can Europe best respond to the challenge being posed by Asian economies? Is closer European collaboration the end in itself or is the goal the better integration of European industrial and manufacturing capabilities in the second and third world so as to be able to compete globally? In other words, what is the goal: greater European collaboration as such or a greater ability to leverage manufacturing capability in the second world?

The temptation to protect national markets and reduce importations already exists, but with what consequences? The 1929 crisis was accelerated by protectionism: how could protectionism impact a global economy?

Bilateral cooperation versus integration and multi-lateral cooperation; future of the European Defence Agency

The Lisbon Treaty introduced the concept of 'Permanent Structured Cooperation in Defence' (PESCO), allowing a core group of states that fulfil certain criteria such as budgetary commitments, deployability and will to intervene, to enter into closer cooperation so as to enhance European defence capabilities. It also clearly established 'enhanced defence cooperations', which were already partially in place (e.g. OCCAR). Indeed close cooperation between a limited number of countries which have similar needs and levels of technology — and are ready to make the necessary investments — could be easier, faster and cheaper than cooperation between 27 states. In an era of shrinking defence budgets, this is an attractive option, but what could the consequences of this be on the development of a European defence industry and technology base?

Without further waiting for a formal PESCO, France and the UK signed an ambitious treaty in defence cooperation (on nuclear simulation, cyber security and aircraft carrier availability, for example) last November. Was the intention to make France and the UK pioneers or to undermine broader EU efforts towards integration? Or is the British and French collaboration simply a justification for both sides to do and to spend less? What evidence is there that the proposed collaboration will lead to increased competitiveness, efficiency or joint acquisitions? How can Germany, the third European 'investor' in defence, be tied in?

Many states take the view that cooperations such as PESCO and 'enhanced cooperations' should be inclusive rather than exclusive, but is full integration possible as long as there are such differences in defence investments? How can a nation's public remain connected to its defence sector if most of its military equipment is being built abroad without the involvement of national industry and its workforce? But as this is exactly what is happening across the manufacturing sector in Europe, why should defence be any different?

The European Defence Agency (EDA), whose mission was included in the Lisbon Treaty, is suffering from a lack of resources and the continuing uncertainty on UK's membership. The EDA does not fundamentally offer a solution to an increase in production and enhanced capability, and — much like the euro — is simply a symbol, which raises questions of national interests and capabilities versus European somnolence. In other words, does the financial crisis call for greater global engagement by core European firms rather than participating in a further downturn of integrated European programmes?

➢ National indebtedness: forcing convergence via budget pressure?

Substantial defence budget cuts are ongoing in almost all European countries. However, the perception of current threats still calls for further investments in European defence forces, as well as in domestic security for critical infrastructure protection, transportation, border security and such like. Which are the tools available to stop budget fragmentation and duplication? How can we make the most of the current situation and accept fair concessions between partners? Does national security rather than defence provide a better framework for securing the necessary funding from the taxpayer?

Session 2: Transatlantic Dilemmas

The transatlantic relationship is made up of multiple challenges: these include an imbalance in defence expenditures, sensitivity to transatlantic commercial procurement conflicts (Airbus/Boeing vis-à-vis the World Trade Organization), necessity to conduct joint military operations (Afghanistan) and a new generation of political leaders (Obama, Sarkozy, Cameron, Merkel).

➢ US/Europe: Is it a level industrial playing field? How can a 'two-way street' be put in place while maintaining leading-edge technology and capabilities in the current context of budget constraints?

Is the expression 'best defence value for money' meaningful at transatlantic level? Can budget pressure accelerate industrial cooperation or could it trigger additional protectionism?

Transatlantic armament trade is still very much in favour of the US (four to one) and many regulations protect the US market. So far, the US Congress has been very reluctant to ease those regulations and it was only under strong pressure from the White House and Department of Defense that the US-UK Defence Trade Cooperation Treaty was ratified three years after its signing.

Will the set of recommendations announced in 2010 by President Obama to facilitate export of defence-related products ease transatlantic cooperation and trade? Will it make it easier for Europe to buy or participate in the development of a US product without giving up its know-how? Is the Joint Strike Fighter going to be a good model for cooperation? One could argue that the Obama administration has been one of the most unilateral procurement administrations in the past 30 years. Evidence for this conclusion abounds, ranging from the Tanker decision, the MEADS decision and the closing of Joint Forces Command with little or no consideration for the impact on the transatlantic alliance, to ignoring F-35 production decisions for allies.

A US decision in favour of the KC-45 tanker from EADS, which was set to have a large US industrial content, could have been a major milestone in transatlantic defence trade. The final choice in favour of Boeing, which had lost the previous competition in 2008, demonstrates how difficult it is for the European defence industry to compete on a level playing field within the transatlantic alliance. To what extent should this situation prompt Europe to further consolidate its defence industry?

➢How to strengthen Europe's weight in global competition — consequences for transatlantic cooperation?

The US considers that it pays more than its fair share towards global security and that this entitles its defence industry to a share of the European market.

Is there a risk that too much European cooperation excluding the US could contribute to some kind of NATO 'disintegration'? If so, how can it be kept under control?

Defence budget cuts in all Western countries, the US included, combined with the arrival of new competitors (Brazil, China, South Korea and possibly Japan) are likely to make the competition for arms exports tougher.

President Obama's arms export policy could, on the one hand, benefit alliance interoperability while, on the other hand, opening access to new markets for the US defence industry.

Because of their legacy (e.g. Rafale/Typhoon), European industries could be seen more as competitors than partners. How can the damage be limited?

As European NATO members are reducing their defence budgets, how can we retain the level of R&D necessary to maintain leading-edge technology and be still considered as partners by the US?

With the significant downturn in US air and naval power, it is likely that pressure will increase to deal with Asian contingencies. Most likely the US will significantly reduce its European commitment. The challenge for Europe will increasingly be to defend its own interests by itself.

➢ The Obama administration: losing interest in Europe? Scope for transatlantic projects?

President Obama is still very popular in Europe, but he is often seen as not investing enough interest in transatlantic relations: he did not participate in the 2009 commemoration of the fall of the Berlin Wall, or in the EU/US summit in Madrid, for example. European countries have not responded as much as he was expecting to his call for increasing its forces in Afghanistan. Secretary Gates openly accused the Europeans of decreasing their defence investments. What could Europeans do to be seen in Washington as a stakeholder and reliable partner in world affairs?

Session 3: Defence and Security

One of the most important changes, brought about by globalisation, is the fact that the distinction between defence and security is becoming ever more blurred. This can be observed in different areas. At the political level, overlapping areas of defence and security are on the agendas of NATO, EU and national governments. At the military level, today's operations abroad are no longer limited to military actions but also include a civil component, such as infrastructure development and police work. In particular, the conflict in Afghanistan clearly shows that a new approach is required: implementing constant amendments to in-theatre operations while also taking care of the humanitarian situation in the country reveals a number of difficulties to be faced.

➢ New challenges for defence and security industries

Going hand-in-hand with changes in the merging sectors of defence and security, further challenges for the business model can be seen. The substantial restrictions on public budgets in all Western countries — which hits the defence and security industry last but hardest — is forcing a transformation process oriented towards the smaller numbers of expanding countries, e.g. India. But as every player is seeking to grab their share, we will still experience a 'survival of the fittest' scenario even here. In a second step, this calls for a complete change in the sales and investment strategy. Export is increasingly becoming an outdated model from the last century. The expanding economies of second world nations want to participate in state-of-the-art technology, which will lead not only to the transfer of goods but also to the transfer of intellectual property. In the end, the industry will have to deal with a complete change in its production chain. Based on a single source principle, companies will spread their centres of competence all over the world to serve the markets' demands for affordable high-tech systems.

How can European companies update their former business model and stay competitive without losing their roots and highly skilled manpower in their home countries? What role will/can politics play?

The NATO new strategic concept enlarges NATO missions in the direction of security. It has reaffirmed the role of nuclear deterrence, but the jury is still out on the current deployment of NATO weapons in Europe. Protection of national territories and populations against ballistic missiles is now a mission of the Alliance, but the agenda is still to be discussed. Washington intends to deploy two Aegis cruisers in the Mediterranean Sea next summer as the first step of the Phase Adaptative Approach (PAA) proposed by President Obama in September 2009. But as the PAA is built on US systems, how can Europeans and their industries be tied into this project?

- **Deployment of armed forces for security: what are the limits (legal, equipment, training, etc)?**

Armed forces are often the best equipped, trained and organised units for reacting rapidly to security threats particularly in the case of NBC events. As legal limitations could differ from one state to another, how can we enable assistance from one country to its neighbours and make this efficient?

What are the new security challenges?

The unfolding Arab revolutions, which are seen with much sympathy in the Western world, could raise new issues beyond the current refugee crisis. As Tunisia and Libya were acting as 'European border police' to control African immigration, how can we handle the flow of migrants if the humanitarian situation in Northern Africa further deteriorates? It seems that Libya could become a 'self-service weapons bazaar'; what is the risk posed by jihadists mixing into the flow of refugees entering Europe?

Interruption of hydrocarbon exports from Libya, which is a small producer, is already pushing up oil prices, so what could happen if instability spread into the Gulf beyond Bahrain?

What role does Europe have in Middle Eastern defence and security dynamics? Does the current crisis not raise questions as to whether the Middle East views the West as really a significant force in shaping its destiny? Indeed, the economic crisis in Europe and the steady downward decline of European naval and air power poses the question of Europe's basic irrelevance to the region. And how is Europe dealing with direct threats from the Middle East?

➢ **Cyber security, protection of mega cities, etc**

Our societies are complex, functioning and fragile. But that which ensures their success also makes them vulnerable. One could imagine a host of scenarios: use of social networks to manipulate public opinions and provoke unrest; cyber attacks on people, networks, command and control of security forces; attacks on energy networks, water distribution, etc.

At the Lisbon Summit, NATO adopted the concept of 'in-depth cyber defence' and reaffirmed the need to address cyber threats to its command and control networks; as the threat spans the military and national civil authorities, what could and should be the role of defence industries? What is the unique selling point of defence companies when it comes to security solutions?

What could be done together in terms of organisation, system analyses and hardening to limit the risks?