

## **CLUB OF THREE: DEFENCE: KLOSTER SEEON, MUNICH 7/8 MARCH 2003**

### **SUMMARY NOTE**

Manfred Bischoff welcomed guests to the meeting at Kloster Seeon and recalled that Otto III, one of the first Europeans in spirit, had granted the monastery freedom of the Holy Roman Empire. Today, however, that ideal of a united Europe seemed lost amid squabbles over the Euro, the European Parliament and, most notably, Iraq. More than ever it was important to stand shoulder to shoulder to forge a common defence policy and create a level playing field with America: to build a Europe that was emancipated politically and economically - and to strike the right balance between integration and national sovereignty. Lord Weidenfeld explained the role of the Club of Three and described the successful first meeting in Washington DC the previous week of its AMEURUS programme designed to bring together Americans, Europeans and Russians.

#### **Session one**

What has really changed since 9/11?

- America's preferred alliance partners: Russia or Europe?
- Defence spending gap: will it ever be bridged?
- Impact of spending and technology on US/EU Defence and Security policies and on transatlantic cooperation.

Much was seen to have changed since the September 11 attacks on New York: the war on terrorism was the principal driving force that saw Iraq, South Korea, Iran and others now in the sights of the US administration and its allies. This new paradigm had resulted in vast increases in defence spending and a sharp focus on technology, investment in Special Forces, lighter more mobile units, smart weapons and infantry soldier technology such as FIST.

No less dynamic was the organisational transformation being witnessed by NATO, Allied Command and the EU: The defence industry was changing too with the focus on the gap in technology between Europe and the United States. This had led to serious questions about how alliances – and organisations such as NATO – could retain future unity.

It was argued that the big political change post 9/11 was the widening transatlantic divide spawned by a different level of tolerance. The United States, forced for the first time to recognise its vulnerability, viewed the world differently from weaker powers: Europe, on the other hand, with memories of two world wars still alive sought peaceful resolution to conflict. Spreading this view to the rest of the world had become Europe's mission – in opposition to unilateralism and conflict.

America's power and willingness to exercise it now constituted a potential threat to Europe's new peaceful resolve. Europe still needed the United States to resolve long lasting security issues such as Russia and the only way to tie Europe to the United States was through NATO. Reversing the wheel with NATO as a purely reactive force would result in the organisation's destruction. Failure to act now could result in the UN, NATO or the EU becoming the eventual victims of Saddam: possibly all could fall as a consequence of the current situation.

At its most pessimistic, debate on the transatlantic divide suggested that the depth of the rift between America and Europe stemmed not merely from 9/11 but also squandered opportunities during the Cold War. This had been brought to a close in relatively peaceful fashion – barring conflict in Chechnya and the Balkans – but Europeans had failed to recognise that the post-Cold War landscape bore little resemblance to the past. Mass terrorism (specifically Islamic terrorism) had arrived soon after the conclusion of the Cold War. Simultaneously there was acceleration in the development of weapons of mass destruction, despite nuclear disarmament programmes. The result was a completely chaotic world with a vast proliferation of technology and terrorist groups targeted at killing people. Had we used the past ten years to make the world better? The track record, apart from partial successes in the Balkans, was described as abysmal.

What had become of NATO and the EU? There was enlargement but what of the actual alliances. Institutions for enlargement did not exist. A decade had been spent talking about defence architecture resulting in mechanisms, seminars and headquarters but no budget or army. France had halved its defence expenditure between the first and second Gulf Wars. Germany was worse. Only Britain had sustained its military credibility.

In this context 9/11 was seen as important: it heralded a major psychological divorce between Europe and America. Most Europeans did not recognise that America viewed itself at war since 9/11 and had completely reorganised defence strategy accordingly. A new ministry had been created in America but not anywhere in Europe. The British had done some work and the French were beginning to do so. But the defence gap was a chasm.

It was argued that the crisis was no longer simply about Iraq but about the philosophical differences between France and America. Could the world be trusted to one superpower with a number of friends or should it be run in the post-military, collective, collegiate style of Europe. Concern was raised that the Iraqi conflict was producing the worst possible outcome: a war conducted without UN legitimacy that would result in mass demonstration on European and Arab streets as well as the onset of mass terrorism.

In this context too, the argument was put that Europeans needed to give up the notion of the Convention. The federal construct of 28 countries was a mirage: what was required was variable geometry or nothing. Bodies such as the Group of Three needed to chart a course for Europe and for its relations with the United States.

A further argument was made that two great fissures had emerged – transatlantic and European. America was less interested in Europe and relations would remain bad for a long time. And once Iraq was out of the way focus would turn to the Middle East peace process, where divisions were even greater.

There could be a more optimistic view for Europe, however, and one in which the rift between old and new Europe would heal. If America intended to take on Syria, North Korea and Iran, then Washington would get less support even if leaders such as Tony Blair were still in power. European countries had greater common interests and thus would stick together for reasons of self-interest. Iraq was the one exception where Europeans were really divided on foreign policy.

There was scepticism about a ‘union within a union’. Most Eastern European countries hated the idea; and Spain, Britain and Italy felt it merely enshrined the Franco-German relationship. It was argued that what Europe really needed was an official Club of Three through which the big three countries could co-operate. France and Germany needed to shift to a Third or Middle Way and Britain would have to turn away from unconditional support for the United States. Such theses provided some comfort for ESDP but not for a NATO that was described as a beleaguered yellow duck constantly buffeted in the waves of the transatlantic relationship. Russia and Putin were interesting in this context. On economics, Putin leaned towards Europe, on security matters towards the United States.

In terms of the technology gap, the point was made that the level of spending in the United States was five times as much as the Europeans put together. The Americans had been systematised; the Europeans had not and were unable to gain true access to the United States market. The European defence industry seemed unable to focus itself and was not really interoperable in Europe, let alone from a transatlantic point of view.

Returning to the pessimism of the earlier debate, it was argued that what had apparently altered since 9/11 had changed long before the aircraft struck the World Trade Centre towers. Europe had failed throughout the 1990s to identify the phenomenal growth in American economic power. And since the mid-1990s the agenda for the United States had not been in Europe. America now had its own agenda, through its perception of a direct threat. Washington preferred neither Europe nor Russia as a partner: America was prepared to go it alone and its preferred partner was whoever followed suit. Washington now talked about the United Nations as just an organisation – a very different view from the Europeans.

Europe needed to be aware of how the American Administration was thinking and would be in a very difficult position if the United States went to war without United Nations sanction and overriding a veto: this would have implications for the entire international architecture. The result would be the Anglo-Saxon world against the rest, divisions within Europe and between parts of Europe and the United States that would be long lasting and uncomfortable. Perhaps the only way to find compromise would be for a catastrophic terrorist attack to take place in Europe before the war against Iraq started.

September 11 was the first time America had been attacked on its own territory – and not by a state but by terrorists. The only way to fight terrorists was to go after them, find their hiding places and restrict their means of financial support. America was the only country that would invest in such police work.

It was suggested, however, that the Bush doctrine did not necessarily represent the entire United States: indeed the President's ratings were dropping fast. There was an increasing American awareness of having few friends: Was Bush America? The view was expressed that multilateralism would reassert itself once war with Iraq was over. Similarly, in a European context, was it true to say that all of France, Germany and Europe were opposed to war and sought a peaceful resolution? This did not apply to Britain or Eastern Europe. Lessons of European history in this context did not necessarily apply. The general movement was towards a world of coalitions of the willing, rather than institutions such as NATO.

Who was setting the benchmark for defence spending? Everyone agreed that Europeans needed to do more but what was the exact level needed to bridge the gap? Did Europeans spend enough money on the right capabilities? Europe not merely spent less money; it spent it less efficiently. What would happen if the budget deficit started to hurt Middle America? What was the role of the military post Cold War and post 9/11?

What did the generals think the war with Iraq would look like? Would it result in a quick action followed by a long period of policing and intelligence gathering in a hostile environment? It was argued that the war was simply a means of opening the door to weapons inspectors: weapons of mass destruction could not be destroyed in a war. The perception at large was that inspectors, rather than war, would provide the right solution. On the other hand, the Americans had never been better prepared to cope with the difficulties of war than they were now. A senior military figure said that this would be a quick war, and there would be no guerilla war thereafter.

Returning to specifics of the industry, the Club was told that almost five years earlier six governments had launched an effort to structure the European Defence Industry. What had happened to that? Some in the industry had believed this would presage a breakthrough in areas such as research and development but instead the effort had been almost completely bogged down in bureaucracy. Europe could create initiatives but could not see them through and tended to drop them after a few years in favour of new plans. This was not an encouraging pattern.

The question was posed as to who was controlling the world's defence capacity. The post-Cold War perception that there was no need for coalition was reinforced by easy victory in the first Gulf War. After 9/11 the first reaction was one of solidarity with the United States but there had been a lot of disappointment with the Afghanistan campaign and now one day in March 2003 the world would go a stage further. Either Europe would be able to rebuild a structure of worldwide governance with control over America's defence spending or could find itself unable to look after its own interests.

In conclusion, the Club was asked not to underestimate either the strength of Bush and the Americans or the amount of intellectual work that was going into the preparation of a post-Saddam Iraq. The shape of the landscape in Europe was not obvious. The central and eastern Europeans were deeply committed to America for historical reasons. The absence of Germany as a strong presence on the world scene was described as a tremendous problem. Germany was deliberately opting out of world affairs: its role in future should be as a bridge between the Americans and Russians to create a strong Europe. And we should not forget that of all the imperial powers, the Americans had been the least abrasive and aggressive.

## **Dinner**

General Harald Kujat, chairman of the NATO Military Committee, gave those present an off-the-record briefing on NATO, his view of its future and how the alliance needed to develop.

## **Session Two**

Has Europe understood the wake-up call?

- NATO Prague Summit: Military transformation or degeneration?
- National budgets and Headline Goals
- EU interoperability and linkages with the United States
- EU willingness to engage out-of-area
- Iraq: a test case for EU/National response?

Europe and America's defence industry had diverged since the end of the Cold War. Europe's military capability to respond to the change in requirements was limited. As the one remaining military power, the United States had become more dominant and this had affected the global balance of power. Had Europe understood the real power of America?

It was argued that Europe was not one nation: decision making among 25 nations would never be easy. Problems like the stability of the Euro amply showed the difficulty in achieving a consensus among nations. Iraq and defence were no different. The proposal for an EU armaments agency was advanced as a means of simplifying the decision-making process. For the first time there was a unique place for the strategic thinking that such an agency could supply. There needed to be an EU solidarity clause to prevent terrorism and protect the civil population. NATO would not have the capacity to deal with a terrorist attack with non-military means.

There should be flexibility in a future EU in terms of defence. This should encompass which member states wanted to be members of a European arms agency and which wanted to develop a defence union further – but there needed to be a union of sorts, whether for R&D purposes or in response to situations such as Iraq. It was agreed that the great issue ahead for NATO and CSFP was the question of whether unanimity was

required for military interventions. Once the touchstone of NATO had been that an attack on one was an attack on all – and that action should be taken either together or not at all. The world now was a more complex place. The surprise in the last five years, for example, was not that Britain had done five new military operations in Kosovo, East Timor, Sierra Leone, Macedonia and Afghanistan. The surprise was that Germany has been so engaged in Afghanistan.

There were now separate dimensions. One needed to cater for the possibility that traditional groupings may take different views of when it was right to intervene. Even if there were a better structure for CFSP with 25 countries, unanimity on when to act would still not be found. It was perhaps not essential that all agree to an intervention, but there needed to be some form of check on coalitions of the willing: and this would be best achieved, if possible, by an active UN.

Furthermore, while there was a need to think about how to contain military power, there had to be a way to act when it *was* necessary. Rwanda was cited as an example of failure to intervene. In terms of an arms agency, it was essential to establish key roles that would include evaluation of capabilities, co-ordination of defence R&D, harmonisation of military requirements and efficient procurement. This was the complex nub of the European dilemma: Europe could be very far apart on Iraq but not on other matters.

There was more talk of the potential losers from an Iraqi conflict. Europe needed the United States for its own stability and security reasons. NATO, however, for some remained the most important defence organisation for Europe. At Prague clear capability obligations had been laid down for all states. This acceleration within NATO would speed up the CSFP commitment. The development of ESDP required genuine partnership allowing NATO resources to be used by the EU. Additional requirements would be needed in areas such as transport, strategic intelligence and command and control capabilities.

It was further argued that Europe should find ways to save money and effort by combining efforts, including planning as well as co-operative procurement of armaments. A comparison of expenditures for R&D revealed a whole raft of unnecessary expenditure: not merely a technology gap but an inability to harmonise. Multinational co-operation was critical to ensure interoperability. In the long run holistic concepts had to be developed with America to counter regional conflict, proliferation of weapons of mass destruction and terrorism. The United States had published its strategy but Europe was far behind, saying only that a problem existed with the American model without offering an alternative. A European Security Strategy needed to be developed.

Despite some optimism over the willingness to create European structures, however, there was a belief among industrialists present that the budget did not exist for ESDP. It was felt too that compensation for the technology gap was a fairytale. The gap could be closed a bit but never bridged.

In the context of collateral damage to all institutions – UN, NATO and EU – over Iraq, doubt was also expressed about whether the concept of coalitions of the willing would work. A better option might be for rapid decisions to be taken by NATO or the EU to act in certain crises. The potential for a standing multinational force was raised as a practical solution to bring countries together.

Europe needed to spend more and become more efficient. Europeans took too long to agree on forces for a common requirement. If indeed a multinational force was to be created, then the decision over A400M should not be taking so long: such matters would have to move much faster. Questions were asked as to how states could align, for example, timings of requirements with elections? How could the interference of national bureaucracies be avoided? OCCAR was good but a new agency needed to be further empowered. How could the current lack of commitment in terms of providing money be changed? Certain countries perhaps could fill part of the gap by mandatory funding.

The importance of NATO should not be underestimated in this context: the organisation provided common ground that the coalition of the willing could not. However, if NATO were to function there needed to be the sense that nations would comply with commitments. The recent Turkish issue was a blow to NATO and would have long lasting consequences. NATO suffered from the technology gap: the Americans inevitably chose coalitions among those with whom they could operate – it was safer for their soldiers. A U-turn must take place or the Americans would go it alone. This was a challenge not merely for NATO but also for the EU. A NATO response force provided one way for Europe to catch up – but without the political will such programmes could never be envisaged.

What confidence-building measures was Europe prepared to take should the Americans strike? Europe would be judged by how its governments and media reacted to what was taking place in Iraq. The suggestion was made to create some sort of peace corps.

But did Europe really want to be part of the bigger game? Part of the European quarrel revolved around legitimacy and had to do with whether the United States was going to be leader of the free world working within a framework of international law. Or was going it alone? This provoked severe reservations about the prospect of coalitions of the willing: authorisation for those coalitions should come from institutions.

The technology gap was serious but Europe needed to realise that we could buy our way out of this if we wanted to. This was not difficult to solve if the political will was in place to do so. If the European capacity was not there then there was a question mark over public opinion: there was no reason why our sons and daughters should suffer greater difficulties than American soldiers.

It was argued that America would soon recognise the need for international institutions rather than simply acting with a coalition of the willing. France and Germany needed to work together with Britain to reassert European institutions after the Iraq war. The conceptual gap was described as being as important as the technology gap. Some of the

best technology was actually available if not affordable in Europe, thus we should have no inferiority complex.

In terms of institutional power, it was argued by some that NATO had failed to convince its members. Change and working with the EU were the best chance for this to happen. A consensus was beginning to emerge that various strands of European public opinion could be drawn together. This may not have instant consequences – the beef may not be seen yet – but, with French increases in spending among other signs, a significant change was occurring.

The world was complex and could not be viewed through a simple prism. It was not surprising that there were different sensitivities among European members regarding the war. After the war there would be no divergence among Europeans as to how they wanted Iraq to be reconstructed.

The concluding speaker said he did not believe the present division of Europe was permanent: the reason the fissure would diminish was that America was simply changing in ways that Europeans found hard to understand. If politicians could give a little leadership and lower the rhetoric the big three European countries could move forward.

### **Session Three**

#### EU/US Defence Industrial Implications

- Missile Defence: JSF model for transatlantic cooperation?
- Further EU industrial consolidation?
- US need for NATO/EU?

It was argued that there could be no such thing as a Fortress Europe. We could not take on the United States and win. JSF would not be a unique experience. The following roadmap was proposed: that there be fair access for European industry to US markets, an acceptable framework for the exchange of military and technology be established, and mutual access to export markets be implemented. It was hoped that the present crisis would create the environment for such dialogue.

European defence could not be seen in isolation. JSF was interesting but it had only happened once and it may have happened for a series of unique reasons. The United States clearly wanted Europe to take greater responsibility: Europe had to be seen as a responsible ally. At the moment Europe was not seen as one entity and so it was much easier for the US to deal bilaterally.

The US was not desperate for new entrants into the industry and had accepted partners in JSF partly because this delayed their own market entry. Europeans had better technology in some areas: Rolls Royce was an example of this. If JSF was the last manned aircraft – and the EU working together could not afford a competitor – what should we do to be



ready for the next generation? If Europe was increasingly independent, it changed the ways in which technology was deployed. Does the United States need to share technology? Is it possible for Europe to act independently? Europe needed to “get serious” about this and recognise that we are part of an international environment. Taking a parochial view was not good enough.

Eighteen months had passed since the last meeting at Chateau des Mesnuls, what had changed? There had been a big change in context: that was just two weeks after 9/11. This time the meeting was taking place perhaps two weeks before another event of similar magnitude but not much real progress had been seen in that time. The European situation had improved only marginally. Europe was now addressing wider threats: terrorists, weapons of mass destruction, skilled individuals prepared to sacrifice their own lives, and cyberspace terrorists.

The United States had seen the concept of Homeland Security become reality but no similar initiative was visible in Europe: it would be a great political embarrassment if something were to happen in Europe as a result. Afghanistan had represented good interoperability but the huge increases in US military spending were not reflected in Europe. The United Kingdom and France had increased budget in some new areas but the effort was small and the direction poor.

The consequences of those changes meant that transatlantic cooperation was not moving in the right direction. There was little sign of real progress and a tendency to think and act nationally in times of crisis. The strength of US lobbies would see a growing gap between US and European expenditure on defence. Significant company acquisitions in the US would be a real question for continental European companies. US companies would be ready in the future to invest in European companies and clearly transatlantic ventures were still necessary from the European standpoint of interoperability and technology. But was this still possible?

In the coming weeks it would be difficult. There had been opportunities in the past 18 months for Europeans to contemplate small acquisitions in the US as long as they remained ‘under the radar screen’. Anything more visible might be much more difficult. Was it worth the effort? The argument was made that a modest, step-by-step approach across the Atlantic was worthwhile.

At the same time, Europe needed further industrial consolidation. Large companies needed stronger evidence of political commitment from governments before shelling out more money on programmes if they were to realise their full potential. Should we create a monopoly? The large players did not cover exactly the same ground and any attempt to create a monopoly across Europe would therefore fail even if the customers tried. The most reasonable business model would be to have at least two players in each field.

It was maintained that the technology gap with the US could not be bridged with money and would not be solved by the transatlantic relationship. The only way for Europe to survive would be by creating a European Single Market for Defence Goods.

What was the real benchmark, not only with regard to European/US spending but also in terms of the value of military hardware? Regardless of cyberspace, the majority of weapons discussed came under the heading of 'Hardware'. Who decided on weapons systems? Enthusiastic pilots? Was there a more sophisticated rationale? Europe still needed to focus on traditional military forces. The defence industry was setting the pace on integration with governments lagging behind. Open architecture seemed to be very important and it was imperative in future that European governments tried positively to influence the defence industry. There was a distinctive European, rather than American, way of doing things. What was missing was an independent audit of European defence capabilities.

The industry needed to look at future requirements: Europeans would face a severe manpower shortage in the years to come. Why would a new agency work where others had failed in the past? The UK government would prefer to have an alternative to a wholly US source of defence, but there were limits to how much the government would be prepared to spend for this. There was now a readiness to move away from national defence industries. Starting at the requirements and capabilities end there was a better chance of concluding with a harmonised military end. R&D cooperation had to flow out of a European rather than national view. There was some scepticism as to whether a new agency should be run by scientists. More money was needed for R&D and this was a problem: policymakers were wary of granting common locus on defence matters.

One participant argued that the transformation of European defence forces had gone further than anyone thought. This could be completed by political will at the top, and the industrialists, who were ahead of the game, could show the way to governments by drafting plans that could become Ministry proposals.

The Americans were described as having four sectors that now played key roles: Media, Agriculture, IT and Aerospace and Defence. It was argued that global support by the US for defence would continue after the conflict and that the consequences of technology transfer should not be underestimated. Europe should continue to cooperate with the Americans but at the same time should be prepared for a freeze in terms of technology transfers in the coming years.

One criticism was that there was much talk of the industrial base but what of the economic reality? If governments were expected to take more of a lead they needed to know what level of profitability companies might have in future. All major companies were listed on the stock market and this was an important element in the success of those companies, something that was not the case ten years earlier. Europeans could identify certain niches where they were better than Americans but there would never be comparability – if there was a problem over technology transfers then Europe would have to reinvent the wheel. It was pointed out that companies must have access to international markets and that to devise the programmes in which they were involved was both difficult and potentially negative for shareholder value risk management. It was not possible to defy economic or commercial gravity.

Regarding the question of an audit of European military capability, there was scepticism whether private companies would be prepared to reveal their inventories. American investors were interested in driving up profitability and Europeans found it useful to be in the American market. An R&D agency was only useful in the context of the buyer – R&D was a very wide area. One of the tests of American attitude would be how non-wholly-owned American companies were able to act in the American market.

In conclusion three major topics emerged from the debate: technology, industrial policy and how to act in the future. Was there any benchmark on Europe's level of technology? Was there a real commitment to match the United States? There was a severe shortage in some fields and could Europe attract US technology before it was too late?

Did an industrial policy regarding defence exist in Europe? The industry was far ahead of European governments in terms of integration and cross-border cooperation. If there did exist an industrial policy from European governments clearly it was not adapted to the industry as it was today.

Europe needed to develop programmes and priorities, to have ideas and propose them together. Europeans must be prepared to propose and develop internationally competitive programmes. Were we diverging from or converging with US industry? If Europe was serious about converging, it would need to take one sort of action. If Europe was diverging and meant to diverge, then action would also need to be taken. Money was required. If we did neither then Europe would neither converge nor diverge, but simply decline.

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