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FACULTY OF HISTORY AND PHILOSOPHY
INTERNATIONAL RELATIONS AND EUROPEAN STUDIES DEPARTMENT

DOCTORAL DISSERTATION

THE EUROPEAN UNION SECURITY POLICY AND THE DYNAMICS OF THE GLOBAL ARMAMENTS MARKET

– SUMMARY –

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SUMMARY:

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The doctoral thesis –"The European Union Security Policy and the Dynamics of the Global Armament Market"– addresses a highly relevant and up-to-date issue, tackling in an interdisciplinary manner two important topics in the field of International Relations (IR) and European studies: the security policy of the European Union (EU) and the European defence market.

In recent years, the EU has frequently expressed its intention to play a larger role on the international scene. In order for the EU to fit its global purpose, it has to possess the right instruments for implementing its strategic goals. Yet, given the budget pressures coupled with increasing ambitions in the security field, the capability gap is growing critical. The decline of defence budgets over the last 20 years, combined with a growth in the costs and complexity of military equipments have exerted great pressure on the European arms industry. Moreover, the fragmentation of the European defence market has proven to be not only expensive, but also a real impediment at the operational level.

Although the institutions of the European Union have tried many times in the past to extend their jurisdiction over this field, their role has remained minimal as the defence products continued to be excluded from the reglementation governing the single market. Formal integration at this level remains thus problematic. In fact, as de Vestel has pointed out: "The Europeanization of defence markets and industries figures among the most complex subjects of European integration. Through defence markets and industries, the problematic issues of political integration and more particularly the integration of the tools of sovereignty are posed"[1].

Nevertheless, a common European defence market doesn't seem to be a *taboo* in Brussels anymore, but an essential condition for more coherence and efficiency inside the CSDP. There is a growing acceptance of the need for a common European defence effort, for ways to maximize armaments cooperation and to pool resources in the defence industry. Maintaining a preponderant national approach is perceived to be economically inefficient and unsustainable

[1] Pierre de Vestel, "The Future of Armaments Cooperation in NATO and the WEU", in *Foreign and Security Policy in the European Union*, edited by K. Eliassen, Sage, London, 1998, p. 197.

from an operational point of view. The need for a common regulatory framework is becoming more and more obvious as the member states of the EU have reached an agreement regarding the need to create, develop and sustain a powerful and competitive European defence technological and industrial base.

In light of recent debates regarding the transformations that have occurred in the European defence market, the study intends to identify and explain the dynamics behind those transformations, as well as to evaluate their impact on the future evolution of the European defence sector. Also, the study intends to outline the challenges confronting the project of the European defence market and the potential factors that could hinder the implementation of a common regulative framework. In this respect, the research will try to determine whether the current dynamics of the defence market hold enough strength to surmount those impediments, to hinder the specific tendencies of closure and control which traditionally define the defence market, as well as the states' reluctance to give up some of their national prerogatives in favour of greater interdependence in the defence sector.

In a great measure, the main impediments confronting the project of a common European defence market have also been the main impediments responsible for the failure of the various attempts to integrate the security and defence sector. Given this acknowledgement, we will seek to determine the impact of the European armament cooperation efforts on the European security and defence policy, namely, the relationship between the strategic/ political aspect of defence and its economic/ industrial aspect.

Tackling the topic of *European security policy* from *a defence market perspective* entails a research endeavour that is both complex and challenging, as it brings together two important concepts, not only from an empirical point of view, but also from a conceptual one, whose operationalization at the analytical level requires a diverse and interdisciplinary conceptual and theoretical toolkit.

The main research topic of this study is *the dynamics of the defence market*, a topic that, just as most of the topics concerning the military aspect of security, has been rendered inconspicuous due to the transformations taking place in the field of International Relations, as the new schools and theories have come to define themselves by disputing the legitimacy of the mainstream, in particular the neo/realist theory. During the metatheoretical and inter-paradigmatic debates, the topic of the defence market and defence industry has become rather obsolete. Thus, while from an empirical standpoint, the defence market and the defence industry have continued to play an important role in international relations, this role has remained unaddressed by IR scholars, the analysis of the defence market and defence industry being left for other fields of inquiry, like economics or military science. Also, the rather pragmatic and technical character of the defence industry in its current configuration, renders the topic less relevant to the public, including the academia.

The choice of the research topic is due in part to this acknowledgement, the fact that the armament market and industry is an insufficient explored subject, being studied mostly by military or economic analysts rather than by the political analysts of international phenomena. Nevertheless, the dual character of the armaments market, caught between the strategic interest and the cost-benefit analysis, renders necessary to strike a balance between the economic analysis of the market and the study of strategic and political considerations. Thus, from a methodological perspective, institutional research or other theories of International Relations should also be viewed as relevant explanatory and conceptual frameworks. In this respect, this kind of approach, from the perspective of the dynamics of the defence market, helps us avoid a static and reductionist approach, as it allows for the analysis of the levels of the defence market (the level of demand – the state, the armed forces, the political and strategic aspect and the level of suplly – the arms industry, the economic aspect) through their interaction, which occurs as a response to each others actions, as well as a response to the structural pressures of the corresponding environments: the economic and the security system.

In conclusion, using this approach, the study intends to correct some of the limitations of the current study of the armaments market, while at the same time proposing a new perspective on European security and the European integration process, as well as topical conclusions regarding ongoing events taking place in the EU. This kind of research is all the more necessary, given the on-going national efforts to restructure and modernize the military forces and reform the procurement system in order to adapt to the new European and transatlantic trends and requirements. This gives the research an important **practical value**, as it summarizes the main regulations regarding the acquisition process existent both at the level of the European and American defence market, outlining at the same time the dynamics behind them, the political, economical and security motivations, as well as their implications.

The doctoral thesis is also of important **theoretical value**, as its findings and recommendations could be used to further the research in this field. The flexible conceptual framework, based on the general dynamics of the defence markets can be extended in order to include a broader set of variables, for eg. the role played by the emerging powers as potential competitors on the market or, conversely, it can be concentrated on a limited sector, for eg. the relations between certain states at the defence market level.

The research process required a complex scientific endeavour, as it covers a multidisciplinary subject, which involves concepts and terminology from the fields of economical, political and military science. It is also based on a broad and diversified **documentation**, consisting mainly of official documents – agreements, conventions, regulatory documents, but also general and special studies, undertaken by International Relations scholars, political and military analysts, such as Keith Hartley, Barry Buzan, Edward Kolodziej, Sven Biscop or Jolyon Howorth. An objectivite and critical approach is beeing used when analyzing the information selected from the various types of sources. Analytic and synthetic methods, as well as comparative analysis, allowed us to differentiate between the various perspectives on the topic, as well as to identify and avoid subjectivism.

This documentation has been completed by press releases, interviews and debates, such as the conferences held by the Atlantic Council or SAIS, journals, websites and database, such as *Jane's Defence*, *Defence News* etc. Furthermore, there have been used briefings and reports commissioned by the European Commission or the US Department of Defence, as well as a great number of scholarly articles and studies published by prestigious academic institutes and think tanks, such as RAND, GRIP, ISS, SIPRI.

Although a sensible sector when it comes to accessing information and data, for eg. data regarding the defence budgets, the arms transfer or the allocation of defence contracts, we haven't encountered any difficulties in accessing the data needed for our research. Nevertheless, the limited access to the data should be rather understood through the controversial character of estimations as well as through the quality of their operationalization and interpretation. It should be pointed out that the estimations concerning the military industry are very sensitive to the definitions and methodologies used. This is the reason why we have also used quantitative measures, analysing the factors behind the numbers: evolutions in procurement strategies, evolutions in the firm's strategies, political interest etc. Also, we have tried as much as possible to use sources with an explicit, clear stated and uniform methodology. This is in line with the general aim of the study, namely to achieve a great degree of clarity and replicability, so that the analytical model and the findings of the research could be verified and could represent a useful instrument or a start point for further research in the field.

The doctoral thesis is structured in five parts, following a triple perspective: theoretical, factual/ empirical and normative. This structure is meant to approach the European market in a dynamic manner, by illustrating the processes of mutual interaction between demand and supply, under the constraints of structural transformations. We intend to outline the dialectical relationship between the two levels of the market: demand /the state (the political and institutional aspect) and supply/ the industry (the defence technological and industrial base/ DTIB). A dynamic analysis, based on the principle of *structuration*, the study intends to follow the evolution of the two levels of the market in their mutual interaction, in the broader context of structural constraints.

The first part of the paper – "Specific Elements of the Armaments Market" – defines the theoretical and conceptual framework. The stress is placed on the particular nature of the defence market, highlighting the traditional trend, dominant in this market – the protectionist tendency. Also, the reasons behind it are explained - national security, operational autonomy and, not least, thoughts on social welfare and maintaining competitive advantages at technological level. Implications of these trends are then presented by: the nature of competition, compensation practices, the different industrial strategies. In the same time, we also analyze the role that the state plays in the market, as regulator, owner, shareholder, sponsor of research and client, bringing examples of the different European states. Following the evolution of the state vs. defence industry relationship, it is also questioned the extent and manner in which the state holds control over this strategic sector in the context of privatization and restructuring of the armament industry.

The following two parts – "The Dynamics and Evolution of the Defence Market" and "The Ttransatlantic Defence Market" – focus on the evolution of the European armament industry, analyzed in the broader context of the defence market dynamics induced by the structural changes occurred in the period that followed the Cold War, and in the narrower context of the transatlantic defence market, respectively.

Understanding the current configuration of the industrial and technological base of European defence requires understanding how it evolved. In order to do this, we used the PEST model for analysis of the macro-environment in which the defence industry acts, looking towards identifying the major influence factors and vectors of change that influence the evolution of the DTIB[2]. In this context, the armament industry will be analyzed primarily in terms of the factors found at the *economical* environment level (access to capital and knowledge, globalization, the competition level in the industry, market entry and exit barriers, the strategies of the major providers), at *political* environment level (acquisition practices, industrial and commercial policy of the state, the length of direct state involvement in the decision-making process of the armament companies, financing or subsidizing models for research and technological development activities) and at *technological* environment level (the impact of the informational revolution, the costs of new technologies, re-conceptualizing the innovation process, the spread of civilian and dual-use technologies) in which armament companies operate and that determine their strategies.

We focused mainly on European defence companies' behavior, particularly on the process of consolidation and restructuring, as well as on the strategies for market expansion and increasing the competitive advantage. These are discussed in terms of their impact on the reconfiguration of the state-industry relationship, as well as in terms of the impact upon the technological and industrial base at European level.

The last two parts of the paper "<u>The North-Atlantic Alliance and the Begginings of the European Armaments Cooperation</u>" and "<u>The European Union and the Common Defence Market Project</u>"set their sight on the market demand. Developments in demand are determined by the *foreign policy* (the military requirements, the capabilities requirements, the level of ambition, political commitments within international organizations or bilateral agreements) and *domestic policy* (state's budget policy, creating and maintaining jobs, public support of foreign policy strategies and the spending of public funds) of the states. What interests us at this level are not the policies of individual European states, but the manner in which they align during the process of cooperation. The European armament cooperation is a central element of the research. This is seen in the broader context of economic, political and strategic connections between

[2] The major influence factors are classified based on the nature of the influence in the following categories: factors that form the political-legal environment (P) factors that form the economic environment (E) factors that form the socio-cultural environment(S) factors forming the technological environment (T).

European countries and the USA, and in the context of the European efforts for economic and political integration in Europe. We sought to identify the motivations and objectives behind the cooperation efforts, to analyze the cooperation formulas and institutional frameworks created for this purpose, and to determine to what extent they can lead to sustainable harmonization of individual policies or even to a common European policy in the field of armaments.

During this analysis, we considered both the European dimension - economic and political integration efforts in Europe and their impact on the European armament industry - as well as the transatlantic dimension - political, economical and strategic connections between the EU and the U.S. and their impact on European cooperation in the field of armaments.

The transatlantic dimension is very important, being often ignored by analyzes which deal specifically with the armament industry and the European market from the perspective of European integration theories. Cooperation and competition between European and U.S. armament companies is the main factor that led to the current configuration of the EDTIB and the technological revolutions at U.S. level lead to the current characteristics of the armaments industry. Ever since the ‘80s, the U.S. was at the technological, doctrinal, and strategic forefront of military policy and warfare, the major European armament companies largely following the development initiated on American ground. The U.S. also has one of the largest markets for defence, which makes it of strategic importance for European companies, both from a financial and technological standpoint. On the other hand, the relations between U.S. and the European states found at NATO level, the U.S. commitment to the security of the European continent and the U.S. contribution to rebuild European armaments industry will play a key role in the development of the European defence sector. U.S. will play a central role in promoting cooperation between Western European states in the field of armament, first from the position of principal partner in the regeneration efforts of the European defence capabilities and, later, from the position of the main competitor of European armament industry, both in the transatlantic market and in the third-party markets. In fact, the first European collaborative programs in the field of armaments appear inside the institutional structures created within NATO, aimed at increasing the interoperability of allied troops. Beyond this common objective, the European cooperation in the development and production of weapons has been seen by the major European countries as an alternative to the dependence on American suppliers and as a way to counterbalance U.S. dominant position in the Alliance. The analysis of the evolution of European cooperation in the broader context of transatlantic cooperation allows us to understand the impact that the transatlantic relations had and continue to have on European armaments policy, as well as on European integration efforts at the security and defence policy level.

Regarding the European dimension, we followed the two directions of development of European armaments cooperation – intergovernmental and supranational. Basically, we tried to determine the limitations of the intergovernmental model and to determine to what extent it could be supplemented by instruments from the Community level. We particularly analyzed the role played by the European Commission to promote cooperation and European integration at this level. In this regard, we focused on the efforts to expand its area of competence towards the armament sector, efforts began in the '70s, in the context of the completion of the single market project and continued throughout the '90s, efforts that will culminate with the current legislative package on public procurement and intra-Community transfer. At the same time, we focused on the institutional framework for European armaments cooperation, throughout its evolution from ad hoc forms of cooperation, to independent organizations, associated to the broader economic, political and security integration effort.

Finally, the last chapter of the study offers a brief discussion of the main research findings. It also contains suggestions for further research in the field. Lastly, some recomendations are made concerning the measures that could be taken at the European level in the short and medium term, in order to promote a strong and competitive European defence industrial base.

The analysis undertaken offers an overview of the European defence sector, the dynamics of the European defence market, as well as the evolution of the European efforts to promote cooperation and integration in this sector. Although a fact that is seldom outlined by current studies, the European states efforts to promote armament cooperation and harmonize national reglementations, in order to centralize demand and put an end to the fragmentation of the European defence market is not a recent phenomena. The progress achieved during the past years, such as the creation of a European armament agency, or the defence package, is the result of an incremental process, started over four decades ago. Thus, the transformations that have occured at this level are not revolutionary, and it is doubtful that, given the current political, strategical and economical environment, such revolutionary transformations would occur in the near future. Nevertheless, we consider that some progress can be achieved in the short and medium term.

Under the double pressure of increasingly limited budgets and ever lower competitiveness of European companies, European governments were forced to develop a more ambitious and systematic approach towards armaments cooperation. Throughout the ‘90s there were many multinational initiatives. Most of them were developed outside the EU, but the EU has also gained some competences in areas that are at least indirectly related to armaments (dual-use products, civilian research in cutting edge technologies, competition policy and trade policy). Some of these initiatives are innovative and promising but their results are not satisfactory. Market fragmentation and duplication persist – in some areas competences overlap, whereas others are not covered at all by existing institutional structures; also, the various initiatives are not coordinated and there is no comprehensive strategy, since there is no coherent armaments policy. This raises the need for policy reforms in the field of research, procurement and industrial policy. Ideally, policies in all three areas should be shaped on the basis of a common definition of strategic industrial interests. The consistency of the acqusition choices, research investments and market decisions can only be guaranteed through a common understanding of the strategic importance of the various military, technological and industrial capabilities.

In fact, since the establishment of the ESDP/ CSDP, there is growing consensus about the fact that at least some elements of armament policy should be brought into the EU framework. However, many obstacles remain at the political level. The main producing countries continue to have divergent industrial strategies and acquisition practices. Issues like security of supply, European Commission involvement and relationships with external partners, particularly the U.S., remain controversial. At the same time, non-producing countries do not necessarily recognize the importance of a common policy on armaments. Moreover, the diversity of interests in a Union of 27 states questions the very viability of CFSP and CSDP, thereby undermining the perspectives for an EU armaments policy. Also, bureaucratic inertia, if not resistance, could represent an obstacle towards a common policy at this level.

During this time though, the European defence industrial and technological base continues to deteriorate. Faced with political inertia and the slow progress made towards centralization of demand at the European level, European companies in the defence sector are increasingly focusing on export markets, developing in parallel their own strategies for building or extending their presence on the global markets. In recent years, the added value created in their activities abroad increased at rates much faster than that obtained domestically. There is a tendency to concentrate business in the sectors with the greatest competitive advantages and in the markets with high potential for demand growth. Furthermore, the tightening of the defence budget stimulates the restructuring of the armament sector through diversification or specialization of the portfolio of large companies. But restructuring occurs however in an uncoordinated manner, determined by the specifics of demand in the export markets. There is no common strategic vision, neither between governments nor between industrial partners, which translates into a negative impact on EDTIB.

Unable to overcome existing divergences and complete the project of a common defence market, countries resort to protectionism in order to support their domestic armaments industry and implement various industrial policies to promote exports. Such an approach is not sustainable in the long term. The restructuring process undoubtedly increased the competitiveness of European companies in the global markets, these being also favored by the activities in the civilian sector, but given the lack of investment, the industry will not be able to ensure the maintenance and renewal of its production and development capabilities. European companies recorded good economic results, but their performance is based largely on investments made 20-25 years ago. Currently, there are no new major programs to be launched in Europe and this will affect undoubtedly the success of future exports. Also, the reduction or stagnation of European investments in acquisitions, especially in R&D, will have irreversible consequences in the near future. Moreover, new competitive pressures from emerging economies could be expected on the global market. Major importing countries such as China and India are turning more and more towards domestic production. As the global market demand continues to fall, one could expect an increase in competition between major suppliers. The competition appears to be even more intense as the decline in demand on domestic markets due to austerity measures will increase the export dependence of companies, especially the American ones, who were so far almost entirely supported by domestic orders. The growing aggressiveness of large U.S. companies on the global market makes it even more urgent for the major exporting countries to adopt the necessary measures to improve the competitiveness of domestic companies.

Although states continue to maintain some control over armaments companies, the lack of coordination and the lack of a common European industrial policy force companies to engage in industrial strategies that often have a negative effect on EDTIB, hence on EU's political aspirations. As far as an increased R&D spending is not feasible in the current economic climate, a more efficient use of resources at the European level is required, as well as a harmonization of national regulations and a better coordination of the national planning systems.

The establishment of a coherent framework and the implementation of a common policy for armaments will present a great challenge for the European states who, on the one hand, recognize the need for greater efficiency, but, on the other, are reluctant to give up some of their national prerogatives. From a strictly economic perspective, the most efficient solution would be to "communitarise" armaments, i.e. to create a single defence market and replace national research and acquisition agencies with supranational organisations. Since such an alternative is politically unacceptable to member states, the only way to make progress at this level is to improve the intergovernmental method and use Community instruments wherever possible. UE's institutional framework makes available two different kind of instruments, thus allowing for the establishment of a common market and a common acquisition system. Along with EDA and the new legislative package, the first steps have been taken towards this end.

Therefore, an incremental and unceasing evolution towards better European armament cooperation can be observed at the institutional level, that could, in time, lead to a common industrial policy, and even a common defence. Moreover, the dynamics of the global defence market sustain such an evolution. Without doubt, a defence market will be different from the single market and the state will maintain its prerogatives. Nevertheless, in the short and medium term, there can be obtained at least a greater harmonization of the regulative framework and a reduction in the fragmentation of the European defence market.