IPS

 | Lucas Hellemeier & Michelangelo Freyrie

Leaving defenselessness behind

In the current security context, Europe's ability to defend itself can only become a reality through setting up a Europeanised defence industry

In the course of the full-scale Russian invasion of Ukraine, the European Commission has announced instruments to meet the sudden increase in demand for military equipment. Since the beginning of the war, the European Peace Facility (EPF) has become the most important military assistance instrument to Ukraine, reaching a capitalisation of almost €8 bn for the period 2021 to 2027.

In March 2023, another breakthrough was achieved with the signing of an initiative headed by the European Defence Agency (EDA) to procure155-mm-artillery-ammunition, the standard NATO calibre most frequently used by the Ukrainian army. This initiative of 23 EU-member states (and Norway) comprises a two-year fast-track procedure to simplify the ammunition procurement and reimburse costs by the EPF, as well as a seven-year framework project to coordinate the procurement of ammunition of various types. Finally, in May, the Act in Support of Ammunitions Production (ASAP) was passed, creating another instrument for joint analysis and overcoming supply shortages in the process of artillery ammunition production.

The procurement of military supplies produced by non-EU states is a contentious issue.

These developments, as well as a couple of other medium-term mechanisms, are welcomed, even though they increase institutional confusion. All measures aim at improving convergence in the arms procurement of the member states, such as for example EDIRPA (*European defence industry reinforcement through common procurement act*), of which the draft is currently still in the approval process of the EU Parliament. This initiative, funded with €500 million, is intended to support the procurement of military supplies of projects involving at least three-member states and shall cover all administrative and technical costs of joint procurement procedures. The procurement of military supplies produced by non-EU states is a contentious issue in this context.

These measures are primarily aimed at the demand side and seek to coordinate the procurement priorities of the member states and to prevent further fragmentation of the European defence market. They are regarded as necessary because national governments still attach great importance to maintaining national industrial capacities, which lead to isolated fragments of the European defence industry operating in silos despite their economic inefficiency. A better-coordinated procurement holds the promise of connecting military efficiency (interoperability) and economic efficiency (generating economies of scale by manufacturing larger numbers of units). Yet, the effect of such initiatives with regard to a consolidation of supply is very limited.

Growing competition in the European defence industry

In the decades following the end of the Cold War, efforts to consolidate the European defence industry ran under the omen of decreasing or stagnating defence budgets. The EU Commission tried to defuse the effects of Article 346 of the Treaty on the Functioning of the European Union by using different market-oriented instruments. This treaty clause grants governments an exception from Europe-wide tenders if aspects of national security are affected. The measures aimed at establishing a 'level playing field', i.e. a competitive environment for European defence companies without subsidies associated with national procurement preferences. It was hoped that this competition would create European champions. National governments, however, have implemented these measures inadequately or not at all, and the fragmentation of the European defence industry has remained. This includes the structural drawback compared to transatlantic competitors.

The data provided by the European Defence Agency (EDA) shows that the landscape of the European defence industry was and is characterised more by competition than cooperation. European governments have prioritised the preservation of national industrial competences. Despite the economic inefficiency this entails, they thus kept the overall picture of the European defence industry as operating in separate silos alive.

The significant increases of the European defence budgets reduce the pressure to consolidate. Making further use of the metaphor, we see that the separate silos are filled with water in the form of defence spending, thus being kept alive and even enlarged. Supply problems show, however, that structural changes are necessary in order to equip the European forces sufficiently. The majority of the weapons provided for Ukraine have so far come from the stocks of the European forces. It is crucial to replenish these stocks. At the same time, the constant procurement of supplies for Ukraine as well as the reconstruction of once-abandoned deterrence capabilities must be secured. These parallel challenges could be better met with synergy effects derived from consolidation. In addition, strategic consolidation would provide a more sustainable, i.e. less export-dependent, set-up of the European defence industry, thus strengthening European strategic autonomy in the medium to long term.

The need for European consolidation

The South Korean-Polish tank deal serves as an example of further fragmentation. At first, Poland buys 120 K-2 battle tanks from South Korean production, while at the same time, a production line is being installed in Poland to produce another 800 units for the Polish armed forces. Hence, another player in the land systems field emerges in the already fragmented European defence production landscape. The Polish wish to become more independent of its previous main supplier of land systems is understandable in view of Germany's foreign policy towards Central and Eastern European countries in recent decades. The German federal government, in line with the defence industry, should have presented Poland with a better offer in the form of a direct investment in the industry. This is of special relevance as Poland plans to put 1,000 battle tanks into service within the next decade – almost 20 per cent of the current European tanks. These are quantitative dimensions that Europe had seen last in the era of the Cold War.

And here lies the key success factor of the F-35. The US offers industrial and economic participation and, in return, the countries involved purchase the very equipment to which they themselves have contributed. A higher interoperability or economies of scale through joint procurement of the same equipment can only be achieved through a Europeanisation of production as well as the supply chains. This creates incentives for the participating states to procure these systems. At present, three types of European combat aircraft are competing with the F-35 and, in most cases, lose out in terms of procurement. A common product would strengthen the European position considerably. Only through a European consolidation can a large-scale production on the scale of the US be achieved.

In concrete terms, this means that in five to ten years, European armed forces could use the same infantry equipment in combat or that European skies would be protected by a single drone defence system.

In theory, the principle of supply consolidation has long been established in the European context as well. The implementation of the European Defence Fund (EDF) theoretically serves primarily this medium- and long-term development of common European arms systems that should meet future capacity requirements of the member states. In concrete terms, this means that in five to ten years, European armed forces would, for example, use the same infantry equipment in combat or that European skies would be protected by a single drone defence system. However, the focus of the European Commission currently seems to be limited to the procurement of artillery arms and missiles for Ukraine. This is understandable: after all, the needs of an army currently engaged in battle are fundamental and often unpredictable. But the deviation of EU-budget funds away from the development of shared systems towards ammunition procurement jeopardises the consolidation of a common European supply of defence equipment.

The role of economic interests

The Directorate-General for Forces Policy at the German Ministry of Defence habitually emphasises that the ministry does not pursue an industrial policy. This claim is understandable given the complexity and political risks that go along with armament projects. However, the procurement of military equipment inevitably implies industrial policy. Even the refusal of military procurement always has industrial policy effects. A state inevitably produces an immense structural impact on the defence market, given its monopsonic market structure (one buyer and various suppliers). The denial of this fact rings like the mantra of the former German governments claiming that Nord Stream was a mere 'economic' project.

An effective consolidation of supply implies that some states would lose certain defence industrial capacities. At present, for example, three (initially even four) suppliers compete to build the next generation of

Dutch submarines. Conventional submarines are extremely capital-intensive products and a European fragmentation on this level is a luxury that Europe cannot really afford, neither in times of peace nor in times of war – especially since the projected number of four new submarines is hardly likely to offset the fixed costs through economies of scale. If a consolidation was achieved, individual states would lose autonomy, whereas Europe as a whole would gain autonomy.

An effective consolidation would reduce the pressure to export on the European defence industry.

The loss of industrial lead capacities cries for an enhanced integration of supply chains as a compensation, so that European products would still be manufactured despite the industrial lead of one or few countries. This would leave only a few products per weapon category, but these products would be European products used by possibly all European forces. This increase in efficiency would strengthen European defence and deterrent capacities while ensuring Ukraine's long-term supply of defence equipment. In addition, an effective consolidation would reduce the pressure to export on the European defence industry, and Europe's position as a foreign policy actor would be strengthened, as arms exports could be approved by applying political rather than economic criteria.

Russia's invasion of Ukraine marks a *Zeitenwende,* i.e a turning-point, which will shape the European security order for decades to come. It is of crucial importance now to take measures that will enable Europeans to establish the material foundations for securing and defending the future political order. These measures should not result in transatlantic disentanglement but rather pave the way for a transatlantic alliance of equals. Therefore, it is time to develop a strategic European armament policy which provides pragmatic solutions to current challenges. Europe's ability to defend itself can only become a reality through setting up a Europeanised defence industry.

Lucas Hellemeier
Berlin

Lucas Hellemeier is a PhD student at the John F. Kennedy Institute for North American Studies at Freie Universität Berlin. His research focuses on arms policy, hegemony, strategy and Europe's role in the Indo-Pacific.

Michelangelo Freyrie
Rome

Michelangelo Freyrie is a researcher at the Institute of International Relations (IAI) in Rome. His research focuses on European defence, Italian and German security policy and Russian military affairs.

-