



DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
POLICY DEPARTMENT



**THE IMPACT OF THE
FINANCIAL CRISIS ON
EUROPEAN DEFENCE**

SEDE

EN

2011

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

STUDY

THE IMPACT OF THE FINANCIAL CRISIS ON EUROPEAN DEFENCE

Abstract

The financial crisis may pose a risk as well as offer an opportunity for the European defence sector: on the one hand, it sounds plausible that shrinking budgets increase the pressure on member states to cooperate and thus overcome the EU's problems related to capability development and restructuring of the defence industries and markets. On the other hand, national prerogatives still dominate despite a decade of rhetoric and initiatives for more cooperation and less state in EU defence. If this national focus continues to dominate under current financial circumstances, EU member states run the risk to implement cuts in their Armed Forces in an uncoordinated way. As a result, member states might end up with potentially even bigger capability gaps than they have today and hence even less opportunities to implement the Common Security and Defence Policy (CSDP). This study provides a comprehensive and detailed overview on the ongoing impact of the financial crisis on EU Member States defence spending. In addition, it examines the potential of overcoming the need to cut defence spending by greater cooperation in the framework of the European Union and by drawing upon the innovations in the Lisbon Treaty. The study highlights the need to address the challenges of the economic crisis, a growing number of initiatives by various EU countries as well as the opportunities the Lisbon Treaty offers for pursuing an effective defence sector strategy that goes beyond the current incremental approach. The study has been requested to provide Members of the European Parliament, broader defence policy community and European public a first comprehensive overview of the impact of the financial crisis on European defence and at the EU level, as well as its wider impact on the future of the Common Security and Defence Policy (CSDP). It includes recommendations to be developed by the European Parliament and decision makers at the national and EU level in order to address the economic crisis whilst ensuring Europe retains defence capabilities to respond to future security challenges.

This study was requested by the European Parliament's Subcommittee on Security and Defence.

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Study carried out within the framework agreement between TEPSA and the European Parliament.

Ref.: EP/EXPO/B/SEDE/FWC/2009-01/Lot6/09

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LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

Editorial closing date: 23/05/2011.

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Printed in [Belgium]

The Information Note is available on the Internet at
<http://www.europarl.europa.eu/activities/committees/studies.do?language=EN>

If you are unable to download the information you require, please request a paper copy by e-mail : poldep-expo@europarl.europa.eu

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ABBREVIATIONS

AMV	Armoured Modular Vehicle
BG	Battlegroup
C2	Command and Control
C3	Command, Control and Communications (US); Consultation, Command and Control (NATO)
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CBRN	Chemical, Biological, Radiological and Nuclear
CFSP	Common Foreign and Security Policy
CIACI	Interministerial Committee to support Civil and Military Export
CIMIC	Civil-Military Cooperation
COTS	Civilian Off The Shelf
CS	Counter-Strike
CSAR	Combat Search And Rescue
CSDP	Common Security and Defence Policy
CSS	Combat Service Support
DCNS	Direction des Constructions Navales Services
DGA	Délégation Générale pour l'Armement
DIRCM	Laser-based infrared countermeasures system
DIS	Defence Industrial Strategy
DPG	Defence Policy Guidelines
EADS	European Aeronautic Defence and Space Company
EDA	European Defence Agency
EOD	Explosive Ordnance Disposal
ESS	European Security Strategy
EU	European Union
EUBG	EU-Battlegroup(s)
EUFOR	European Force
EUSEC	European Communications Security and Evaluation Agency of the Military Committee
EUTM	EU Training Mission
FREMM	Frégate Multi-Mission

GAF	German Armed Forces
GDP	Gross Domestic Product
GNI	Gross National Income
HHG	Helsinki Headline Goal
HG 2010	Headline Goal 2010
IED	Improvised Explosive Device
IMF	International Monetary Fund
ISAF	International Security Assistance Force
ISR	Intelligence, Surveillance and Reconnaissance
ISTAR	Intelligence, Surveillance, Target Acquisition and Reconnaissance
JSF	Joint Strike Fighter
KFOR	Kosovo Forces
LoA	Level of Ambition
MALE UAV	Medium-Altitude Long Endurance UAVs
MBDA	Matra BAE Dynamics Alenia
MBU	Modular Battle Units
MEADS	Medium Extended Air Defence System
MED	Ministry for Economic Development
MINURCAT	UN Mission in the Central African Republic and Chad
MoD	Ministry of Defence
MONUC	Mission de l'Organisation des Nations Unies en République Démocratique du Congo (UN Observer Mission in the Democratic Republic of the Congo)
MOTS	Military Off The Shelf
MPL	Military Programming Law
MRAP	Mine-Resistant Ambush-Protected Vehicle
NADMP	National Air Defence Modernisation Plan
NATO	North Atlantic Treaty Organisation
NBC	Nuclear, Biological, Chemical
NORDEF	Nordic Defence Cooperation
NRF	Nato Response Force
NSS	National Security Strategy
OHB	Orbitale Hochtechnologie Bremen

OMLT Operational Mentor and Liaison Team
OSCE Organisation for Security and Cooperation in Europe
PfP Partnership for Peace
PSCoopPermanent Structured Cooperation
R&D Research and Development
R&T Research and Technology
SAR Search And Rescue
SDR Strategic Defence Review
SDSR Strategic Defence and Security Review
SEDM South-Eastern Europe Defence Ministerial Process
SEEBRIG South Eastern Europe Brigade
STOVL short take-off vertical landing
TFEU Treaty on the functioning of the European Union
UAV Unmanned Aerial Vehicle
UN United Nations
UNDOF UN Disengagement Observer Force
UNFICYP UN Peace-Keeping Force in Cyprus
UNIFIL United Nations Interim Force in Lebanon
UNMIS UN Mission in Sudan
UNTSO UN Truce Supervision Organization
WEAG Western European Armaments Group
WEAO Western European Armaments Organisation
WMD Weapons of Mass Destruction

ACKNOWLEDGEMENTS

This study has benefited from data and advice provided by individual experts all across Europe as well as comments on sections of this study, stimulating discussions and last but not least the support in the editing process. Hence, we would like to thank officials from the EU institutions and NATO as well as officials at the national Ministries of Defence, Ministries of Foreign Affairs and Embassies for their input into this study. We are particularly grateful to the following colleagues – in a completely random order: Tomas Valasek, Kristina Soukupova, Harald Pöcher, Franz Sitzwohl, Markus Gauster, Hilmar Linnenkamp, Iliyas Saliba, Claudia Major, Marcel Dickow, Alessandro Marrone, Nicoletta Pirozzi, Niklas Granholm, Robert Dalsjö, Bengt-Göran Bergstrand, Pia Niedermeier, Ute Schlüter, Mirte van den Berge, Laura Ventura, Andras Racz, Bastian Giegerich and Alexandra Jonas, Isabelle Faulhaber, Bettina Rudloff and Hanns Günther Hilpert.

EXECUTIVE SUMMARY

EU Capability generation: thee problems –still not overcome

EU Member States are unable to guarantee their security by acting unilaterally in the face of threats in the neighbourhood and further afield. This insight is clearly stated in the 2003 European Security Strategy and is the spirit of cooperation under the European Security and Defence Policy (ESDP) launched in 1999. EU Member states have committed themselves to political aims and military headline goals to become more active and coherent on defence matters. In particular, their objective is to cooperate on overcoming existing capability gaps and to investing in future capabilities.

In 2009 the Lisbon Treaty came into force and EU Member States confirmed their intention to cooperate on defence by enhancing ESDP under the Common Security and Defence Policy (CSDP). Whilst this commitment and the launch of some 24 missions and operations over the last decade is an important sign of political will, the record on overcoming capability short falls has been much less impressive. Until today European forces fight together in various theatres around the world, but they are still largely organised and equipped separately. At the EU level virtually no joint funding for capabilities or equipment exists. Joint spending in the area of armaments is more the exception than the rule: amounting only to about 20%.

This lack of resources at the EU level is contrasted by inefficient national level practices whereby the 27 EU defence ministers and their bureaucratic apparatuses currently spend over 200 billion euros a year and manage approx. 1.7 million soldiers but cannot make 10 percent of these forces available for active deployment. The inability for EU Member States to better coordinate their defence policies and budgetary cycles results in missed opportunities to make up growing capability shortfalls and their achievement of international military commitments including within the framework of CSDP.

Capability development in Europe, i.e. the phase of capability development (planning, set up, organisation and routine management of armed forces) and the preceding armaments phase (generating and maintaining equipment) has the following major problems:

In the phase of capability development the EU has developed a plethora of initiatives, bodies and agencies but with limited record of delivery on capabilities. The are headline goals, concepts, plans and mechanisms that can only provide a rudimentary answer to the question “What forces for what operations”. The EU institutions have worked upon creating a shared perception of the problems and needs. Member states have certainly engaged in developing collective military capabilities at the EU level. But beyond EU-Battlegroups, an EU Headquarters and strategic lift which offer at least some palpable output, they still recognise severe capability shortfalls. This is predominantly a question of political will where EU Member States fail to commit themselves beyond the level that supports individual national capability needs. But in addition the EU- level actors, i.e. in the Council, the Commission and the European External Action Service (EEAS), remain disjointed in the effort to create a system that generates a “bigger bang for the Euro”.

The armaments phase is less characterized by the strained relationship among traditional national industrial and technology policies on the one hand and internationalized market and production structures on the other. In addition, article 346 (TFEU) and the principle of juste retour cooperation hinders EU level cooperation and encourages initiatives outside the EU- framework. The result is a complex pattern of structural cooperation that is characterized by an obstructing diversity of 27 EU member state policies of defence, market, technology and industry. EU taxpayers carry the burden i.a. of duplication of defence industrial production sites. As these suppliers offer more than the EU market can absorb, industries are forced to export. In addition, protected domestic markets with a limited numbers of suppliers do not contribute to the competitiveness of producers and therefore result in more costly equipment.

The most serious problem however is the missing link between the EU armaments and the capability development phases. They are both institutionally and conceptually fragmented and there are virtually no resources available for both, besides those controlled by the EU Member States. As a consequence national and multinational equipment programmes always arrive too late, more expensive than envisaged and under-perform. The link between the armaments phase and the capability development phase is of paramount importance for effective and efficient capability generation as a whole. In particular, coherence in the generation of capabilities creates important advantages and even essential conditions for defence cooperation i.e. what you develop and build jointly, you can operate and maintain jointly.

Several innovations during the last decade have engaged with these problems and in particular the poorly developed link between the armaments and the capability development domains. The European Defence Agency (EDA) represents the missing link between the capability development and the armaments phases. It can engage with the whole spectrum of capability relevant issues: research & technology, markets & Industry, capability development and armaments. However, the success of the EDA is limited due to the limited use by the Member States and especially Ministries of Defence (MoDs) of their Agency.

The EU Commission has succeeded in establishing a role at the intersection of defence vis-à-vis issues of internal market, industrial policies and research. It may be the only actor that can effectively establish a framework for competitiveness through defence specific legislation and policies. A litmus test for the Commissions future role will be the implementation of the "defence package", a set of two directives that offer a harmonized legal framework for procurement and the transfer of military items. The package not only engages with the Member States dominance in the armaments domain but it could also lead to a profound change in procurement practices.

In addition, the Lisbon Treaty introduces an innovative package that has real potential to improve the coherence of the overall institutional framework and in particular the area of EU-capability generation. The protocol on *Permanent Structured Cooperation (PSCoop)* could in a long-term perspective bolster the link between the armaments framework and the capability development phase as well as enhance the role of the EDA. However, competing political visions and ambiguous strategic objectives complicate the road to implementing the innovations in the Lisbon Treaty. In addition, the current financial crisis has weakened Member States confidence, so far, to table tangible proposals on how to implement PSCoop.

It is still the political will of the member states that paves the way towards a greater role for the EU in achieving the desperately needed coherence in capability generation. For the EU's Common Security and Defence Policy (CSDP) this raises the question of how long member states will be willing and able to fund the gap between the political rhetoric of joint action and their unilateral practices. This question is particularly salient in the light of ongoing foreign operations and rising personnel costs which are squeezing the already diminishing resources for defence transformation needs, i.e. research, development and procurement. Moreover the dream of national security and independence of supply has not only become quite unaffordable, but has also been taken over by reality. International dependencies in production, in supplies and in services are increasingly the norm. Today, no single European state retains the ability to produce and develop the entire range of capabilities needed by its armed forces on its own. Most of the time the state does not even own the industry required to produce these capabilities. Hence, the question is no longer which defence industrial, technological and military capabilities should be preserved by the nation-state, but which ones are required by Europe and who provides them.

Financial crisis and Member State reactions

In this context, the financial crisis has put public budgets throughout the European Union under severe pressure. There has been a swift and massive reduction in the available financial resources which has led to equally swift and substantial budgetary cuts. At the same time the crisis has led to the withdrawal of those resources that enabled Ministries to conceal inefficiencies in the defence sector. This situation will continue for a long time. Hence EU member states have to seek resource-saving solutions and increase the incentives to examine the efficiency potential of European procurement cooperation.

The financial crisis creates a turning point for the generation of capabilities for all EU Member States – albeit with an unclear direction so far. Member states have to adapt the affected policy areas to these new realities. This is even true for those few states whose defence budget is not affected by the financial crisis. As contributions to security and defence of individual members decrease, all EU countries are affected. This may be through decreasing guarantees for their territorial defence or through increasing demands for troop contributions to crisis management for those who remain capable to deliver. While this may initially create free riding, losing the ability to contribute to EU security will soon be felt as the inability to shape policies.

However, there is a considerable risk that a loss of the capacity to act in the military realm is only perceived after significant cuts into EU capabilities and loss of industrial and technological base have already taken place.

The initial response of member states to the financial crisis has been to evoke the traditional pattern of national prerogatives in defence matters rather than a security guided rationale. The member states have sidelined NATO and the EU in identifying spending cuts. They planned and started to implement their current reforms in a rather uncoordinated manner. At the same time, member states know little about the defence reforms and cuts that their neighbours and alliance partners in EU and NATO have implemented. Hence, they seem to be willing to accept and even actively work towards reduced levels of common security by cutting capabilities without informing one another of the consequences or gaps that are created by the alliance or EU as a whole.

Although a majority of EU Member States is affected, the effects and reactions to economic challenges differ i.e. the consolidation of national budgets has been prioritized along national traditions in economic policy. Despite observable differences a majority of states have been affected by the crisis and have decided on major consolidation measures.

While the EU currently debates and experiences the short term consequences of the financial crisis, the long-term effects are still ahead of the Union's public budgets. According to European Commission estimates, the period of austerity may last for up to two decades until 2030. The exact timeframe depends i.a. on the fiscal discipline Member States show in consolidating public spending. After massive debt-financed recovery programmes the states now seek fiscal consolidation by reducing all public spending over a long-term perspective. Consequently, the consolidation process will have to aim beyond short-term cuts to seek structural spending reforms designed to have an effect in the medium term.

The impact of budget pressure on EU Member States' defence establishments differs significantly from country to country. This diversity is to some extent a matter of political priorities. But it is obviously only a matter of time until the increasing pressure of servicing public debt arrives at the defence budget and forces it to contribute to fiscal consolidation. However, it is questionable whether the required savings can be achieved by simply shrinking the existing national defence structures and armed forces. Especially for small and medium sized countries, whereby keeping their military ambitions has become a costly reality which they cannot escape. The most dramatic cuts of all have taken place amongst the small EU Member States with cuts above 30%. The majority of middle-sized states have implemented cuts on average of 10%. Among the bigger EU Members under pressure, there seems to be the most political and economic room for manoeuvre.

Analysing the current problems and reactions of EU member states, a very heterogeneous picture unfolds. In those states deciding to implement defence-related cuts, the decision on how to distribute savings across the defence apparatus has varied. For instance this study identifies that:

- **Whilst the EU Level of military Ambition (LoA) as well as that of a majority of Member States has not changed officially so far, the UK and Germany have already reduced their ambitions.** A key interest shared among almost all EU Member States is to enhance the deployability and sustainability of their armed forces in distant theatres. To these types of operation, middle-sized and smaller Member States are looking to provide *niche capabilities* and work towards role specialization. The bigger EU countries still aim to maintain *full-spectrum forces*.
- Whilst a majority of EU Member States struggle with **personnel costs, it will be difficult to realize significant savings** in this area over the short or even the medium term due to contractual obligations or military needs.
- **In the area of armaments**, the serious risk of a **growing gap between “modernizers” and “procurement cutters”** increases, due to very diverging reactions to the financial crisis. It may affect the ability of some Member States to contribute to future multinational operations. Generally, cuts in the area of procurement (planned or realized) reached a much lower level across EU member states than discussed at the beginning of national response plans.
- **In the area of Operations and Maintenance**, a majority of Member States used the opportunity to **accelerate the decommissioning of older capabilities**.
- For **international military engagements**, almost no Member State has to date opted for a withdrawal. However, most Member States did reduce the number of troops in certain missions and/or shift their weight across their multiple engagements.
- The **defence industries in the EU** have not been seriously affected by the crisis so far. But a long-term fiscal downturn implies serious programme cuts or delays for almost all EU member states for future programmes. Whilst the demand may be lower and the market volume may shrink, it will come along with increased imperatives for value-for-money. This may turn into additional arguments for EU based companies to further develop footholds in the US and emerging markets like Asia and South America. **Member states with significant defence industry have reacted quite differently so far – in line with their traditional approach to defence industrial policy.**

More recently, Europe has seen a number of bilateral and multilateral initiatives for capability development and a renewed interest in Pooling & Sharing. Whilst the necessary mix for the success of these initiatives is difficult to define some variables play an enabling role, such as regional proximity and similar geographic size; common strategic culture and pre-existing political cooperation as well as the alignment of political interests; and finally, defence industrial relations are likely to be supportive if they are asymmetrical (i.e. diverging industrial landscape that will not suffer from a cooperation induced rationalisation in the industrial sector).

The characteristics of existing examples of Pooling & Sharing (P&S) show the wide spectrum of forms and areas of application international cooperation can take. What items and services can be subject to P&S and what has to be kept purely national varies greatly among Member States. They typically evolve around user groups for equipment or specific capability shortfalls. Whilst they often build on existing cooperation among EU Member States, the majority are not integrated into the EU framework with the exception of EU-Battlegroups. Some of the larger P&S examples were first developed within the NATO context. The majority of analysed Pooling & Sharing initiatives comprise five or less participants.

When assessing the eight most prominent new initiatives, (Franco-British Pact, NORDEFECO, Nordic-Baltic Pact, South Eastern Europe Defence Ministerial process, Visegrad Four, Wiemar Triangle, Franco-German Cooperation, Ghent Process), the study identifies that they vary greatly in number of participants and scope. However, they may be the first sign of a new political momentum for bottom-up processes for

capability development that draws first lessons from the financial crisis and more sensibly take into account the security repercussions of ill-conceived cuts in capabilities.

Entirely new initiatives, inspired by the financial crisis are limited to the Ghent Initiative and the Nordic pact. Besides them, current re-energizing of initiatives builds upon established relations at the highest political levels or upon pre-existing cooperative frameworks, or both. These vary significantly regarding membership, objectives, stages of preparation and output. Moreover, not only multilateral but also bilateral cooperation has been revisited, with the Franco-British pact being the most prominent example.

Still, it remains to be seen whether these initiatives support or undermine CSDP and European capability development in general. Currently, there are mixed attitudes whereby EU Member States can be divided into three groups according to their attitude towards this revival of defence cooperation initiatives. There are the "Activists" that are actively looking for cooperation options or leading efforts in this domain, and including France, Germany, Poland Netherlands Sweden, Belgium, Finland, Greece, Hungary and Bulgaria. There are the "Undecided" who have an ambiguous stance regarding closer defence cooperation within the EU (the UK, Denmark, Italy, Spain, Portugal and Romania) and who may favour e.g. the NATO framework or bilateral formats (French-British Agreement). There are the "Specialists" including a number of smaller states constrained by the proportionate burden a military imposes on a small national economy and who are therefore interested in developing niche capabilities that would ultimately lead to some form of role specialization amongst in the EU.

Recommendations: elements of an EU Defence sector strategy

The EU's current political atmosphere may well limit the appetite for more initiatives towards defence cooperation. However, three arguments highlight why an EU as a capable military actor is a necessity for responsible governments vis-à-vis their populations rather than a question of choice and taste.

1. The US will in future be less available for EU requests for help.
2. EU member states have not been able to ensure their security individually - the effects of the financial crisis reinforce and indeed accelerate this trend. A significant capacity to act can only be generated through pooling at the EU level.
3. Whilst policies for conflict prevention have to play a major role in EU crisis management, the option to resort to military force as part of a political strategy cannot be ruled out.

Using the current financial situation as a turning point to concentrate minds and budgets upon more effective and efficient EU capability generation highlights that Europe needs a defence sector strategy as a comprehensive answer to the problems outlined above. This should include the conceptual, institutional and material links between the armaments phase and the capability development phase as well as increased performance in each phase.

To ensure that CSDP gets reenergized, the challenge is to combine the following elements into a coherent strategy that goes beyond the current incremental approach i.e:

- by using the opportunities offered by Lisbon Treaty, including the EDA and the Commission,
- in addressing the economic crisis by adapting the capability generation framework to the realities of austerity,
- by building upon the various initiatives by EU Member States as well as learning lessons from existing cooperation and turning them into an effective defence sector strategy,

Therefore, this study proposes a more comprehensive approach to the defence sector – overcoming the current piecemeal approach to the various problems. The recommendations concentrate on the shape of an effective EU defence sector strategy during a period of austerity (linking especially the industrial and capability dimensions); the necessary steps to introduce and implement that strategy in practice; as

well as the options for the European Parliament to support Member States in developing such a coherent and comprehensive approach.

It starts with the conceptual link: an EU Strategic Defence and Security Review that would enable a dialogue among EU Member States on the ways and means they have already developed to live up to their obligations in the EU and NATO and how they would like to organize themselves in future, taking into account the circumstances of the financial crisis and national cuts.

To increase the institutional link the full potential of the European Defence Agency (EDA) should be used as a forum and permanent secretariat for multinational projects. Adapting the EDA to the times of austerity should include national finance ministers playing a bigger role. Permanent Structured Cooperation introduced under the Lisbon treaty should be envisaged as a long-term objective that can currently only be achieved by bottom-up generated examples of best practice. These may act as inspiration for further tangible areas of cooperation for Permanent Structured Cooperation..

Linking resources is possible in three different areas: pooling of national Research and Technology funds that are currently under imminent threat because of the financial crisis. The links could be based upon industrial and time-related priorities. Common investment and procurement programmes are an option to consolidate demand. Although prominent examples like the A400 M may reduce the appetite for multinational programmes, it is important to remember the performance of national procurement programmes is not necessarily better. It is important to focus upon the discipline in keeping the harmonisation of the requirements throughout the whole production process. At a different level one can also envisage linking the funding of R&T to the general EU budget via a redefined role of the EDA.

Specifically related to the capability development phase, the study proposes several areas for Pooling & Sharing. It also highlights the opportunity to use the ATHENA mechanism, currently limited to operations as such, to purchase common equipment for EU operations. Likewise, the EU Battlegroups have already shown their utility as a testbed for new military solutions within an agreed political framework. Following on from this positive experience new ideas could be tested. For instance, Battlegroups themselves could be the subject of an intensified and widened Pooling and Sharing approach, allowing for a more complex and real threat related capability. Last but not least, this model of pooled capabilities and very deep military cooperation could be extended to wider military structures.

Engaging with the armaments dimension most effectively requires greater understanding of the industrial policies of EU member states. Far beyond defence specific aspects, Member states would have to develop an understanding about industrial priorities in times of austerity and thus find a formula for a more coordinated European Industrial policy. Here the Commission, including through its defence package, may play a certain role. The next step would then be to elaborate a defence industrial Headline Goal 2030 that sets out common industrial and technological priorities for the EU defence sector. At the same time EU Member States have to engage in greater consolidation of demand through joint R&T projects or through bundling demand for shared capabilities (ie harmonization of demand, synchronization of procurement, cooperative or common procurement). Moreover, defence firms should be encouraged to expand their activities into the security field to buffer against upcoming rationalisation and to offer alternative options vis-à-vis export markets.

The EU Parliament may support these recommendations through its new powers under the Lisbon Treaty in the area of political oversight, budgetary authority and legislator (and as developed in the conclusion).

1 INTRODUCTION: EU CAPABILITIES AND THE FINANCIAL CRISIS: RISKS AND OPPORTUNITIES

The financial crisis can be both for the European defence sector, a risk as well as an opportunity: on the one hand, it sounds plausible that shrinking budgets increase the pressure on member states to cooperate and thus to overcome the EU's problems related to capability development and restructuring of the defence industries and markets. On the other hand, despite a decade of rhetoric and initiatives for more cooperation and less national influence on EU defence, national prerogatives still dominate. If this national focus continues to dominate under current financial circumstances, EU member states run the risk to implement cuts in their Armed Forces in an uncoordinated way. As a result, member states might end up with potentially even bigger capability gaps than they have today and hence even less opportunities to implement the Common Security and Defence Policy (CSDP).

EU member states are unable to guarantee their security individually. This has been the starting point of the European Security and Defence Policy. ESDP so far has allowed to Europeanize the way, European forces fight together they still prepare for these operations individually. Today capability generation in Europe, i.e. capability development through defence planning and the armaments process, is characterized by a plethora of arrangements. However they fail largely to deliver due to conceptual flaws, fragmented processes and missing commitment resources. This is contrasted by a widely shared practice at the national level to waste resources under the disguise of national sovereignty. What they have in common is the underperformance on delivering of operational capabilities.

In this situation national and EU capability generation frameworks are hit hard by the financial crisis, creating a turning point. Member states have to adapt the affected policy areas to the new realities, including defence. While many member states are still in a state of denial, losing the ability to contribute to EU security will soon be felt across Europe, by those who can still contribute and those who lose the ability to do so and by this shape their security.

The initial response of member states to the financial crisis is to evoke the traditional pattern of national prerogatives. More recently, new opportunities surfaced: Europe has seen a number of bi- and multilateral initiatives for capability development, mainly build on existing frames. It remains to be seen whether these initiatives support or undermine CSDP and current efforts to European capability development

To ensure that these initiatives reenergize CSDP, they would a) have to come under the EU-framework, b) the capability development framework itself would have to adapt to the realities of austerity and c) it would have to be linked more closely to the defence industrial and technological dimension of capability development.

Hence, the challenge is to combine the necessities of the economic crisis, the initiatives by the various EU countries and the opportunities the Lisbon Treaty offers into an effective defence sector strategy that goes beyond the current incremental approach.

This study offers MEPs and the European Public a first comprehensive overview of the financial crisis' effects on the defence sector of all 27 EU member states and the EU level, as well as its wider impact on CSDP. It recommends to the EP and other decision makers on how to react to the crisis. Therefore, the study comprises four chapters and an extensive Country analysis of all 27 EU member states in the Annex of this study.

The following chapter gives a brief overview over the well-known challenges in the EU defence sector to deliver operational capabilities for EU Operations. It will address the state of defence transformation and the adequacy of member state capabilities related to current and future threats. It shall give an overview of the problems and effects of duplication of these capabilities as well as that of defence industrial infrastructure. It eventually analyses why these problems exist and why it has been difficult to

overcome them in the past. It also seeks to highlight the growing future risks resulting from leaving these problems unchanged.

In its third chapter the study will evaluate the effects of the financial crisis at national and EU levels in light of the questions raised earlier. All this is based on an extensive country analysis examining the defence sector of all 27 member states. It focuses on recent changes in the following categories: financial context and budget cuts, forces and equipment, international cooperation, defence industrial aspects. Such an analysis should a priori be put in context of the member state's defence sector characteristics. Hence, we divide the countries into three groups according to the size of their defence industry and contributions to EU capabilities: bigger, medium sized and smaller countries.

This analysis will lead to our recommendations to the European Parliament, taking especially into account the new rights the EP holds in the area of CFSP/CSDP. These recommendations will concentrate on the shape of an effective EU defence sector strategy in times of austerity (linking especially the industrial and capability dimension), the necessary steps to introduce and implement it in practice and the options of the European Parliament to support and push the member states for such a coherent and comprehensive approach.

2 EU CAPABILITY GENERATION – STATUS QUO AND NEW OPPORTUNITIES

Capability generation comprises three things:

1. The **concepts** that inform about the underlying assumptions regarding specific ends and means. In crisis management this is often provided through scenarios etc.
2. **Institutions and processes** that frame the development process from the production through the maintenance to the deployment of capabilities.
3. The **material resources** that enable the concepts to materialize. As an input to the capability generation process), this is *money* The most visible material output of the capability process is of course equipment but also services like logistics fall under this category.

Capability generation encompasses two subsequent phases:

1. **The Armaments phase:** It comprises **research, development testing und procurement as the** relevant stages of equipment generation. The elements (e.g. knowledge, Installations etc) needed during this phase represent the **defence industrial and technological base** for capability development. Ideally, the core function of the defence and technological base is to equip and supply the armed forces with effective products. Through the development and maintenance of military capabilities it contributes to the state's overall capacity to act.
2. **Capability development phase:** It comprises the **planning, set up, organisation and routine management of armed forces**, i.e. training, exercises, but also services that allow building and maintaining a certain capability.

The conceptual, institutional and material linkage between armaments phase and the capability development is of paramount importance for effective and efficient capability generation as a whole. In particular, such coherence in capability generation creates important advantages or even essential conditions for defence cooperation: what you develop and build jointly - you can easily operate and maintain jointly.

European capability generation is confronted with three main problems. These problems also point towards central chokepoints for more effective and efficient capability generation.

- **capability development: The exiting mechanisms and institutions have created a shared perception of problems and needs, that led to a conceptual basis for capability development**

(ESS,HG 2010) However, the resulting institutions weren't able to generate a sufficient level of material commitment for the member states to implement their self inflicted conceptual obligations. The overall method of governance – bottom up voluntary contributions and peer pressure – does make member states to close jointly identified gaps as EUBG and other areas show. The answer to the question, “What forces for what operations” remains too fuzzy and bound to national considerations.

- **Within the armaments phase, it is less the security political considerations that characterize capability generation than the mixture of national industrial and technology policies and structural policy.** These national approaches and the resulting fragmentation of regulation, and demand has led to a host of problems: Institutionally, the armaments domain has traditionally developed outside the EU, based on purely intergovernmental principles like “Juste retour” and Art 346 (ex 296) Lisbon Treaty. EU taxpayers carry the burden of resulting duplication of defence industrial production sites. As these suppliers offer more than the EU market can absorb, Industries are forced into exports. However protected domestic markets with limited numbers of suppliers have not contributed to the competitiveness of producers.
- The EU armaments and the capability development phases **are institutionally and conceptually fragmented and virtually no resources are available for both, besides those controlled by the EU member states. As a consequence, equipment, national and multinational, is always too late, too expensive and too poor in capability performance.**

Several innovations during the last decade have aimed to engage with these problems, especially the poorly developed link between the armaments and the capability development domain. However, it is still the political will of the member states that paves the way towards a greater role of the EU in achieving the desperately needed coherence in capability generation.

The Lisbon Treaty could solve some of the institutional problems among and within the phases. The treaty increased the potential for a more effective capability generation framework. Moreover, two new players in the field of armaments may provide support for a midterm but lasting change. EDA and Commission have already aimed through different ways and initiatives to lower the national walls of the EU's 27 armaments sectors. The EDA can engage with the whole spectrum of capability relevant issues: research & technology, markets & Industry, capability development and armaments. However, its success until today is limited due to the restricted use the member states and especially MoDs make of their agency. Eventually, the EU Commission has succeeded in placing a foot in the defence domains latest step was the defence package. If implemented properly, this could well have significant transformative effects on the defence market and industry.

At the EU level virtually no joint funding for capabilities or equipment exists. Joint spending in the area of armaments is more the exception than the rule: only 20%. Hence it is the member states that fund the military part of CSDP. However, national budget lines are neither related nor equipped to comply with the military obligations EU members have committed to themselves to under the CSDP framework. Instead the main way of financing is either according to the GDP key (see below) or by voluntary contributions.

There is first of all a legal hurdle to transfer financial resources to the defence realm from the community or CFSP budget. Article 41 of the Lisbon Treaty states in Paragraph 2:

“Operating expenditure to which the implementation of this Chapter gives rise shall also be charged to the Union budget, except for such expenditure arising from operations having military or defence implications and cases where the Council acting unanimously decides otherwise.

In cases where expenditure is not charged to the Union budget, it shall be charged to the Member States in accordance with the gross national product scale, unless the Council acting unanimously decides otherwise....”

The EDA activities are financed accordingly. Moreover EDA has only a very small operational budget, limiting its room for manoeuvre. The lion share of the resources can only be invested if the Steering board agrees on projects, the Agency suggests to them. In addition there are *ad hoc* projects also launched in the EDA framework but funded solely by the participating states. Currently, about 300 million Euros are invested in such *ad hoc* projects.

Through the so called ATHENA mechanism only common costs of EU military operations can be financed so far. The common costs are divided up between the Member States based on a GDP index set for each Member State. The ATHENA mechanism has been used for the EU military operations: EUFOR Althea, EUFOR CONGO and EUFOR Chad/CAR.

In parallel, the Lisbon Treaty provides for the setting up of a start-up fund to finance the preparations for EU military operations, which should improve the speed and efficiency of EU action.

2.1 The persistent Challenge: ESDP/CSDPs Capability development

In terms of capability generation, the European states are faced with manifold challenges: They have to maintain the operating and strategic effectiveness of their armed forces while being presented with the contradictory relationship between decreasing resources and increasing numbers of ongoing operations. Despite the military engagements in the Balkans, Afghanistan and Iraq defence budgets have not recovered from their massive cutbacks after the end of Cold War. In those states where defence expenditures have slightly re-increased in the past few years, the added funding has rarely been used for investments in military capabilities or equipment. Frequently, these sums only cover the increased attrition of material due to the many military operations.

The problem is aggravated by the necessary, but cost-intensive transformation of capabilities. Against the background of changing threats, appropriate military equipment not only has to adapt to a new mission spectrum via cost-intensive technological innovations but also has to be interoperable. Since military missions today are mainly undertaken in multilateral frameworks, the use of compatible or jointly developed arms products and maintenance concepts as well as standards and procedures is a key to higher effectiveness and lower costs.

The character of crisis management is also drifting away from purely military tasks. Future engagements are likely to be more civilian and more geared towards managing the complex interaction of several actors to achieve an integrated or comprehensive approach. This poses also challenges to the development of capabilities, i.e. to link planning assumptions and deduce integrated or civil - military interoperable capabilities such as communication, maintenance or transport.

EU Capability development

The EU offers an extensive institutional framework that could well assist member states to gain more "bang for a Euro".¹ The Franco- British St. Malo agreement 1998 and the Cologne Summit in 1999 set the starting point for the evolution of the EU's capability development initiatives. Heads of state and government agreed in Cologne "...that the European Union shall play its full role on the international stage. To that end, we intend to give the European Union the necessary means and capabilities to assume its responsibilities regarding a common European policy on security and defence. (...) The Union must have the capacity for autonomous action, backed up by credible military forces, the means to decide to use them, and a readiness to do so, in order to respond to international crises without prejudice to actions by NATO"²

The current framework comprises several actors, institutions and concepts to guide its development. The major implementing tool is the European Defence Agency. Coherence with NATO is aimed to be

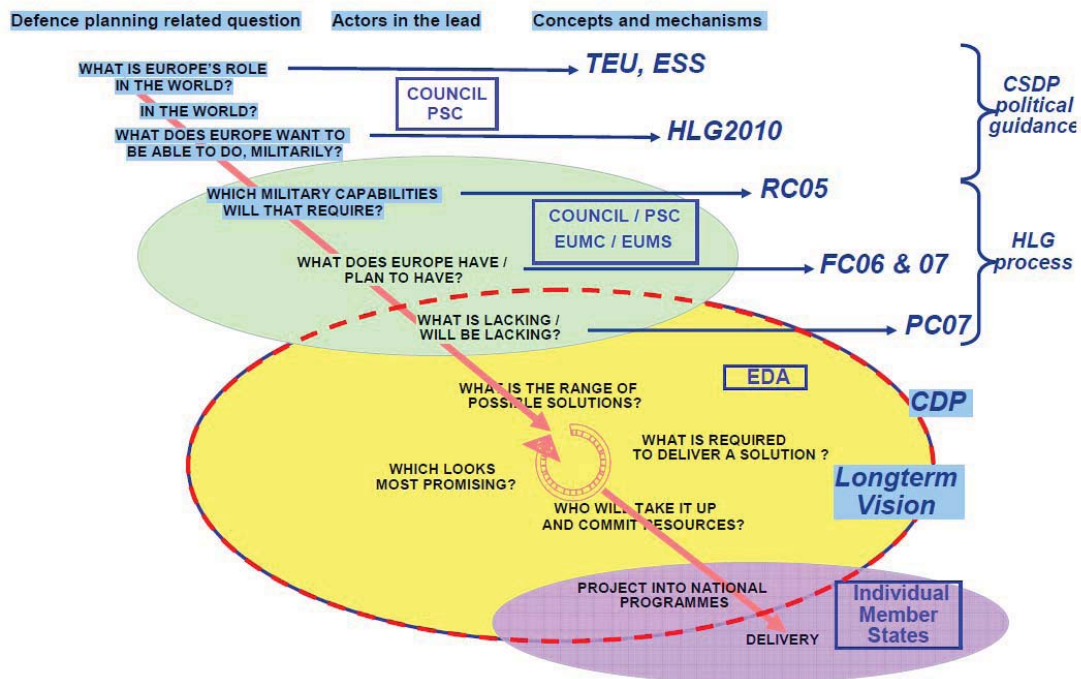
¹ Burkard Schmidt: The European Union and armaments. Getting a bigger bang for the Euro, Chaillot Paper No. 63, Paris August 2003

² European Council declaration on strengthening the Common European Policy on Security and Defence, Cologne European Council, 1999.

achieved by informal information exchange and the joint EU-NATO capabilities group. New opportunities for the framework are offered by the Lisbon Treaty.

Main EU- actors are the...

- Political and Security Committee (PSC) – It takes the political leadership on behalf of the Council.
- European Defence Agency (EDA) and EU Military Committee (EUMC) which define the military needs.
- EU Military Staff (EUMS) and the Crisis Management and Planning Directorate (CMPD) which support the actors mentioned above



The EU capability development today is driven by several concepts that evolved over the last decade. The European Security Strategy (ESS) poses a watershed for capability development as the ESS led to a comprehensive review and update of the capability goals. These were translated into concrete military objectives, namely the HG2010. The latter also set up the so called Capability development mechanism.

Peterberg tasks (1992): They are the point of reference for the scenarios used to define the capability needs. Under Article 17(J7)(4), the Treaty of Amsterdam incorporated into the TEU the so-called Petersberg tasks: humanitarian and rescue tasks, peace-keeping tasks and tasks of combat forces in crisis management, including peace-making. These have been extended (“Petersberg Plus tasks”) by the Lisbon Treaty, which additionally refers to joint disarmament operations, military advice and assistance tasks.

The Helsinki Headline Goal (1999): The EU-states agreed upon a collective capability goal at the EU level - the Helsinki Headline Goal (HHG). With the HHG, they committed themselves to have by 2003 60.000 troops available in 60 days, to remain in theatre for one year, and able to address the full spectrum of the already existing catalogue of scenarios: the “Petersberg tasks”.

The December 2003 European Council closed the process initiated in Helsinki although the HHG has not entirely been achieved. In fact, despite quantitatively meeting the targets, significant qualitative shortfalls remained in key capabilities such as transport or force protection. Particular problems have been recognised with regard to the upper end of the spectrum of scale and intensity. Most observers hence claim that the HHG has not been met. ESDP remained a symbolic political move rather than one supported by military-material evidence.

European Security Strategy (2003): The ESS defines strategic objectives and sets out the political implications for Europe. It calls upon the EU member states to become more active, more capable and more coherent and to work with partners. Besides global challenges such as hunger and disease, the ESS lists five threats to security:

- terrorism;
- weapons of mass destruction;
- regional conflicts;
- failure of states;
- organised crime.

The ESS has had a direct impact on the ESDP: it paved the way for the update of the Petersberg tasks, informed the military Headline Goal 2010 and influenced the Capability Development Plan compiled by the European Defence Agency.

Headline Goal 2010 (2004): In May 2004 member states agreed to: “commit themselves to be able by 2010 to respond with rapid and decisive action applying a fully coherent approach to the whole spectrum of crisis management operations covered by the Treaty”. The EU’s ability to deploy high readiness forces in response to a crisis was considered a key element of the HG 2010 and was to be based on the EU-Battlegroups (BG). BG are rapid response units of about 1500-2500 troops. They are composed of national or multinational contributions under the responsibility of a framework nation.

The HG 2010 comprised further capability development targets. A non-exhaustive overview is given in the table below:

Capability To be developed/	implemented by
Establishment of a civil-military cell within the EUMS	2004
Establishment of the Agency in the field of defence capability development, research, acquisition and armaments (European Defence Agency)	2004
EU Strategic lift joint coordination, with a view to achieving by 2010 necessary capacity and full efficiency in strategic lift (air, land and sea) in support of anticipated operations;	2005
Specifically for Airlift: the transformation of the EACC into the EAC is welcomed, as is the intention on the part of some Member States who so wish to develop a	2004

European Airlift command fully efficient by 2010	
Availability of an aircraft carrier with its associated air wing and escort;	2008
Developing appropriate compatibility and network linkage of all communications equipment and assets both terrestrial and space based	2010

“Declaration on Strengthening Capabilities” (2008): with this declaration, the EU Council made a first step towards a reorientation of the capability development. It set out a new EU level of ambition for civilian and military crisis management missions. The EU should be able i.a. to simultaneously conduct two major stabilisation and reconstruction operations involving up to 10,000 troops plus a civilian contingent; two rapid-response operations using EU-battlegroups; a civil–military humanitarian assistance operation and around one dozen civilian missions, including one major operation involving up to 3,000 personnel. Moreover the declaration advised member states to investigate innovative methods for capability development, including the pooling and multinational management of assets.³ This level of ambition has not yet been translated into a new HG to generate the necessary capabilities for its implementation. Currently, it only increases the gap between available and intended capabilities.

The EU’s capability development balance: EU-Battlegroups and a bit more

The main success of the EU capability development mechanisms is to keep member states engaged in capability development under the EU framework. They acknowledge capability gaps and voluntarily commit themselves to seeking ways to solve them. The main problem consists in the mechanisms that do not sufficiently engage the member states. The overall method of governance – bottom up voluntary contributions – did not change from Helsinki to the HG 2010, and no sanction mechanisms have been introduced to monitor the member states commitment. From this perspective, the HG 2010 was more an adjusting of goal posts than an improvement of a method which already showed its limits in the HHG. However, the force generation process under the HG 2010 became auditable: While still based on voluntary declarations, the units and force packages member states offered were peer reviewed by the member states. This increased the peer pressure against free-riding or undercutting of minimal standards.⁴ Still, member states cannot be obliged to fill the gaps they have identified.

Hence, the member states certainly have engaged in developing collective military capabilities at the EU level. But they still have to recognise severe shortfalls. In 2009 ESDP reached its 10th anniversary. It changed its name to CSDP⁵ after the Lisbon Treaty came into force. However, the main capability shortfalls identified in 1999 and 2003 in intelligence and reconnaissance, strategic and tactical transport, and force protection all still persisted. A quantitative assessment indicates that some progress has been made in terms of national military reform. But this is not identical with EU military capabilities.⁶

The capability development and the force generation are thus still not linked up – one could speak of a “capability-operation” gap. Instead, the Member States - within the EU-framework- have repeatedly failed to develop effective military capabilities because they were either unable or unwilling to commit themselves to joint military operations. The EU-Battlegroups have not been used and neither has one of the many capability catalogues and plans played a major role in the set up of recent operations. The EU prefers setting up ad hoc force generations processes.

³ International Institute for Strategic Studies, *The Military Balance 2010*, London, Routledge 2010.

⁴ Claudia. Major and Christian Mölling: 'EU Military Capabilities - Some European Troops, but not yet a European Army', in: Ettore Greco, Nicoletta Pirozzi, Stefano Silvestri (eds.), *EU Crisis Management: Institutions and Capabilities in the Making*, IAI Quaderni English Series No. 19, Rome, November 2010, pp. 11-28.

⁵ Common Security and Defence Policy

⁶ Daniel Keohane and Charlotte Blommesteijn, *Strength in numbers? Comparing EU military capabilities in 2009 with 1999*, Paris, EU Institute for Security Studies, 2009 (ISS Policy Brief December 2009)

At least to some extent the EU-Battlegroups are a success story. They delivered where all earlier initiatives failed: setting up a functioning capability generation mechanism with a palpable output: since 2007 two EU-Battlegroups are always on standby. EUBG have significantly intensified the defence cooperation among EU-states, which comes with a socialisation of decision-makers in EU security affairs. However, the price for this is military ambiguity. The minimal criteria for participation have been watered down to allow every nation to participate. In turn military effectiveness cannot be assured for all formations. The EU-Battlegroups have an important transformation effect. It is however limited to the very small portion of troops that participated in the formations. Consequently, they did not have a structural impact on defence reform.⁷ Moreover, EU-Battlegroups haven't yet been deployed –they are thus virtually non-existing in operational terms. Besides the Battlegroups, also command and control are available at the EU level thanks to the five EU-earmarked national Operations Headquarters. The limitations for strategic transport have been eased to some extent the “Strategic air lift interim solution (SALIS).

2.2 Armaments: The EU's limited defence & technological base

Contrary to the EU capability development, institutions and concepts are less developed within the Union. The sector is traditionally shaped by national armaments policies on the one hand and internationalized market- and production structures on the other. Cooperation and institutions have evolved mainly outside the EU.

Against the dream of national security and independence of supply has become quite unaffordable, and out of tune with the reality of the EU. Instead, international dependencies in production, supplies and services will become the norm. Today running national military machineries has become highly dependent on non-national service providers and suppliers. The question is no longer how much national independence would cost, but simply how Europe can uphold an effective spectrum of capabilities and the associated Defence industrial and technological base (DITB).

The structural obstacles to improving European Armaments cooperation

Art 346 and the principle of *juste retour* kept the armaments sector a purely intergovernmental business. Its structure is hence characterized by the obstructing diversity of EU member states approaches to policy of defence, market, technology and industry.

Armaments cooperation in Europe is traditionally determined by ad-hoc programs and has hardly experienced any restructuring initiatives yet. There are four main reasons for this. First of all, many arms-producing states continue to perceive their national independence and the security of supply to their armed forces as being linked to the maintenance of their own armaments industry. Secondly, the divergent national security concepts result in different demands for capabilities and correspondingly different role conceptions for the national defence industries. Thirdly, there are varying views as to the role that the state should adopt towards its own defence industry – as a regulator, as a shareholder, and as a customer. Fourth, only very few European countries possess a comprehensive production infrastructure of their own. This results in heterogeneous procurement and market policies. Arms-producing countries often prefer the products of their own industry. Moreover, among the bigger producing countries, France, Germany, the UK or Italy, there is a continuing tendency to maintain as broad a range of national production capacities as possible. Non-producing countries, on the other hand, do not even necessarily purchase their defence products on the European market, but choose other suppliers, especially from the US.

⁷ Claudia Major and Christian Mölling, EU-Battlegroups. Bilanz und Optionen zur Weiterentwicklung europäischer Krisenreaktionskräfte, Berlin, Stiftung Wissenschaft und Politik, 2010 (SWP-Studie 2010/S 22, August 2010)

The remarkable progress of Common Security and Defence Policy (CSDP) in recent years has given rise to new hope that systematic European armaments cooperation can be set up within the framework of the EU. However, the main obstacles have not been overcome so far. These are...:

- **Article 346 TFEU (ex 296 TEU).** EU member states traditionally treat the area of armaments as their *domaine réservé*. This exemption is enshrined in Article 346 TFEU Treaty of the functioning of the European Union. According to the article, a Member State ‘...may take measures as it considers necessary ... for the protection of the essential security interests... connected with the production or trade of military items...’⁸ Consequently, the area of armaments is de facto excluded from the EU integration process. Although Article 346 principally allows using market instruments wherever possible, the Member States have regularly resorted to the derogation clause in order to escape from Community procedures. **This practice and the absence of a binding EU framework have led to the current fragmentation of the defence market in terms of demand, regulations, standards and supply.**
- **Principle of *juste retour*:** EU member states institutionalized the rule whereby **in multinational state based armament projects instead of market mechanisms the national work-share equals the national financial investments.** Accordingly, if e.g. Germany pays for 40% of the project costs German companies receive contracts worth these 40% of the overall project budget. It does not matter whether a German contractor actually exists or can deliver the required quality and quantity.

Since the end of the Cold War, the parameters of the sector have changed significantly but also asymmetrically. As a result, the rationales of the market and those of armaments policies are occasionally at odds with one another. While economic considerations militate in favour of an internationalization of supply and demand, defence- and procurement planning generally remains limited to the national level. This is due to the dilemma of a common armaments policy, which makes sense economically, but also threatens to undermine the sovereignty of the individual state by maintaining its ability to defend itself. However, it is becoming more and more obvious that national armaments policies in Europe are coming under increasing pressure to adapt.

While coordination between the various national armaments policies seems advisable, no such systematic approach can be discerned so far. Efforts towards a more efficient European armaments policy have chiefly increased the institutional diversity in Europe, with the result of overlapping memberships and potential responsibilities. Several loose forms of intergovernmental armaments cooperation have emerged since the 1990s. Within the framework of the Western European Union (WEU), the Western European Armaments Group (WEAG) and the Western European Armaments Organisation (WEAO) were created in order to coordinate research and arms procurement. In the “Letter of Intent” (LoI), the six major EU arms-producing countries (France, Germany, United Kingdom, Italy, Spain, and Sweden) agreed to coordinate the restructuring of their defence industries and to make it easier to engage in cooperative arms projects. Another body based on a limited membership is the *Organisation conjointe de coopération en matière d’armement* (OCCAR). It serves as a management organization for multilateral arms procurement projects. Additionally, several NATO bodies deal with the coordination of procurement, standardization, interoperability, and research and development.⁹

⁸ Treaty on European Union, Article 296b. See: <http://eur-lex.europa.eu/en/treaties/dat/11992M/hm/11992M.html>.

⁹ relevant NATO Agencies are NAMSAs - NATO Maintenance and Supply Agency, NETMANATO Eurofighter and Tornado Management Agency, RTO - NATO Research and Technology Organisation (RTO)

States, industries and markets in defence - a relationship under pressure to adapt

Given these changes and their effect on the defence industrial and technological base, the question is no longer which capabilities should be preserved by the nation-state, but which ones Europe requires. Today no single European state retains the ability to produce and develop the entire range of capabilities on its own.

While the European states hesitate to overcome the fragmentation of their armaments policies, many of the structures and processes related to the defence market and armaments production have become strongly internationalized. Defence companies are competing in an increasingly globalised environment for profits and market shares.

These changes were due to the sharp reductions in defence budgets in the 1990s. Like the US, Europe experienced a consolidation of production capacities through acquisitions, mergers and rationalization efforts. The result was a concentration of production capacities in the shape of large, occasionally multinational defence corporations such as BAE Systems or EADS. At the same time, the network of subcontractors, i.e., suppliers of components and parts, has become more transnational. Due to the decline of domestic demand, there is an increasing need to boost exports in order to ensure that production lines operate at full capacity and to remain competitive regarding unit prices via "economies of scale".

Thus, the shrinking of markets has led to their globalization. This tendency is likely to continue as long as investments in the domestic markets do not increase significantly. However, these developments have not extended equally to the whole defence industrial sector. The consolidation of production capacities and the creation of multinational corporations in Europe have primarily affected the aerospace and electronics sectors. The market segments for land-based and maritime systems remain fragmented.

This fragmentation results from the structure of regulatory policies towards the European armaments sector. Due to heterogenic national rules and procedures for procurement, competition etc. it consists of several small national markets instead of a single but bigger European one.

The consequences are severe for both supplier and demanders. The fragmentation of demand lowered the influence of the individual demander vis-à-vis the producer and the product specifications. Parallel to the downsizing of armed forces the procurement budget shrunk. Lesser demand however led to higher per unit costs as investments had to be allocated to smaller production lots. Thus the state today pays to some extent more because it buys less.

For suppliers, to compensate to some extent for these price increases, the participation in the international markets and production chains has become indispensable. Here, especially small and medium-sized companies - without national branches in every important state - depend on simplified access to these markets. However, not only they but all non-domestic suppliers collide with the prevailing practice of governments. The governments protect their national markets and suppliers e.g. through individual procurement policies and regulations for tenders. They tend to prefer domestic contractors and hinder international competition and participation in domestic tenders. Exempted from this practice are only major companies that act as prime contractors in intergovernmental framed multinational procurement projects. However, such projects reify the principle of protectionism through the "juste retour" practice. It guarantees the distribution of the budget to the participating suppliers along a politically consented distribution key.

The resulting deficient competition among producers as well as different forms of state aid led to the duplication of production capacities and of research and development activities. At the same time many producers are losing their potential international competitiveness and market shares due to the national protectionist measures. In parallel, other uncompetitive domestic suppliers are kept alive without being forced to adapt to the current state of market affairs or cutting edge products.

Consequentially, products of these domestic suppliers are becoming less attractive or affordable for European customers as the latter have to insist on best value for money due to the known budget restrictions.

Ironically, this fatal circle exists if even these state measures fail to produce the necessary revenues for the domestic producers. Then they have to engage into competition on international markets. Here, they experience the discrimination against non-domestic supplier. Additionally, as they adapt their product range towards the export markets they discover that equipments requirements are rather heterogeneous due to incompatible national armament policies. Accordingly, they may be less able and willing to deliver those products demanded domestically. In turn, some states that have a long tradition in state subsidies to their defence industry find themselves left alone once "their" companies adapt to the market structure.

The prevailing pursuit of national armaments policies no longer reflects the market realities of the armaments sector. While the current practice attempts to ensure the survival of individual companies in the short term, in the longer term they prevent the necessary consolidation of the defence industrial sector in Europe. Economic pressure towards structural changes that can enhance efficiency and reduce costs is obstructed.

2.3 The European Defence Agency – linking capabilities to defence industry& technology

The European Defence Agency (EDA) represents the missing link between the capability development and the armaments phase. Its mandate reflects all aspects of the armaments sector in Europe: Capabilities, Research and Technology, Armament and Industry and the Market. However, the EDA's room for manoeuvre is limited. Consequently the success of first projects and activities has been marginal. Main achievements have been possible in short term pragmatic programmes such as helicopter pilot training. But also the joint investment programmes seem to increasingly attract member states.

The European Defence Agency (EDA) represents the missing link between the capability development and the armaments phase. It has the task of supporting the EU states in the development of military capabilities for crisis management operations. In this context, its agenda reflects all aspects of the armaments sector in Europe. Its purpose is to coordinate, optimize, and harmonize co-operation between the member states. Hence, EDA activities should be seen as a contribution to the overall effort of EU institutions involved in capability generation.

However, the EDA's room for manoeuvre is limited. As an intergovernmental institution, its task is to support the EU member states. Besides, Article 346 (ex 296) of the Treaty of the Functioning of the European Union (TFEU) de facto exempts the armaments sector from any EU- Community initiative and regulation. Accordingly, the success of the EDA as well as any initiative from the EU- Commission depends on the political will of the national governments.

Given these constraining factors, it is not surprising that EDA's success has so far been limited. Starting with a very broad mandate, the agency soon felt the limitations imposed by the member states. The first projects have severely suffered from the ongoing influence of the intergovernmental structures that hamper economic rules to be applied to the armaments sector. The future of the agency will especially depend on the question whether it will gain control over some big future armaments programmes such as UAVs or bigger land system procurement.

The EDA has already taken some initial steps towards a more Europeanized armaments policy. For example, the inefficient WEAG and WEAO were dissolved and their projects transferred to the EDA. Furthermore, initial successes are being registered in the regime (Code of Conduct on Procurement) created in 2006 to promote international tendering of procurement projects and in the joint investment program in the area of research and technology.

Through different ways and initiatives, EDA aimed to overcome the national walls that still protect the EU's 27 armaments sectors. However, only a marginal amount of money and number of contracts have come under the voluntary EDA Code of Conduct on Procurement. It failed until today to have any structural impact. None of the bigger member states has shown great appetite to buy equipment abroad. In 2010, the EU armaments sector is far away from showing a tendency towards a single set of commonly accepted and exercised rules and harmonized procedures on competition, procurement, and export. The lion share of procurement remains outside the EU-framework. No big armament programme so far has come under the control of the Agency.

EDA activities in the context of the EU do not draw on EU Budgets in terms of community or CFSP budget. The EDA is funded by its members in proportion to gross national income (GNI). While the starting budget in 2004 was 1.9 million Euros it reached 31 million Euros in 2010. However, EDA has only a very small operational budget, limiting its room for manoeuvre. The lion share of the resources can only be invested if the Steering board (composed of defence ministers) agrees on projects the Agency suggests to them. In addition there are *ad hoc* projects also launched within the EDA framework but funded solely by the participating states. Currently, about 300 million Euros are invested in such *ad hoc* projects (For examples see below).

EDA tasks and projects

As stated in the EDA Financial Report 2009, the Agency „...has been created to help EU Member States to develop their defence capabilities for crisis-management operations under the European Security and Defence Policy. The Agency's activities are divided into four sectors: Capabilities, Research and Technology, Armament and Industry and the Market. Article 45 of the Lisbon Treaty defines EDA's major tasks:

- contribute to **identifying the Member States' military capability objectives** and **evaluating observance** of the capability commitments given by the Member States;
- promote **harmonisation of operational needs** and adoption of effective, compatible procurement methods;
- **propose multilateral projects** to fulfil the objectives in terms of military capabilities, **ensure coordination of the programmes** implemented by the Member States and **management of specific cooperation programmes**;
- **support defence technology research**, and coordinate and plan joint research activities and the study of technical solutions meeting future operational needs;
- contribute to identifying and, if necessary, implementing any useful measure for **strengthening the industrial and technological base** of the defence sector and for improving the effectiveness of military expenditure.”

The Agency will achieve its goal by encouraging EU Governments to spend defence budgets¹⁰ Consequently, EDA has undertaken several initiatives to involve its member states in common and better funding:

In the field of defence R&T, the EDA promotes the development of flagship projects such as the Force Protection programme (protection of forces in urban environments) bringing together 20 European states and with a budget of 55 million Euros over three years; the ESSOR (software defined radio) programme involving six European states and a total budget of more than 100 million Euros; and the projects for the integration of unmanned aerial systems in controlled air space (MIDCAS) and for an unmanned maritime system (2010).

¹⁰ <http://www.eda.europa.eu/WebUtils/downloadfile.aspx?fileid=1209>

The EDA also works to strengthen the EDTIB. The Code of Conduct on Defence Procurement that came into force on 1 July 2006 is a legally non-binding arrangement. States that have signed up to it undertake to open up their defence equipment markets and to publish their invitations to tender on the EDA website, on Electronic Bulletin Board 1 (EBB 1). This contributes to more transparency in the field of defence equipment procurement of the value of the overall contracts advertised on the site. A related EDA initiative is the Code of Best Practice in the Supply Chain which encourages European companies (as project managers) to publish all contract opportunities for small and medium-sized defence companies on the Agency's Electronic Bulletin Board 2 (EBB 2) in order to give them better access to defence contracts. The 2009 Code of Conduct on Offsets is part of that same approach. The EDA has drawn up several major strategies reflecting its principal aims: the Long-Term Vision (2006), the European Defence R&T Strategy (2007) and an Armaments Strategy (2008). The Long-Term Vision adopted in October 2006 was a major initiative providing guidance for R&T activities with a view to developing capabilities for horizon 2025.

In 2009 financial achievements included:¹¹

- the launch of 59 operational projects for a combined value of € 7.7 million;
- the commitment of 10 new contracts for combined value of € 29.9 million during the third year of the Joint Investment Programme Force Protection ("JIP-FP");
- the launch of 12 Ad hoc Category B projects signed in 2009 for a total value of € 40.9 million (government and industry contribution).

Helping to close the capability gaps: The Capability development plan

EDA was especially tasked by the participating member states to implement the Capability Development Plan (CDP). The CDP was designed as an instrument to let those capability needs resulting from the agreed joint level of ambition - the HG 2010 – materialize. It provides a significant corpus of analysis of capability needs, capability trends and potential capability shortfalls up to 2025 and a database of national plans and priorities which will help the member states to identify and exploit areas of common interest and opportunities for cooperation.

The Capability Development Plan (CDP) approved in July 2008 builds directly on the Long-Term Vision and feedback from the numerous missions conducted by the EU since 2003. The resulting picture has led to a series of conclusions and set of 12 high priority actions, that were selected by the Steering Board:

1. Counter Improvised Explosive Devices (C-IED)
2. Maritime Mine Counter Measures (MMCM)
3. Chemical Biological Radiological and Nuclear (CBRN)
4. Counter Man Portable Air Defence Systems (C-MANPADS)
5. Network Enabled Capability (NEC)
6. Intelligence, Surveillance and Reconnaissance (ISR)
7. Improving Helicopter Availability for Operations
8. Medical
9. Third Party Logistic Support (TPLS)
10. Comprehensive Approach
11. Computer Network Operations
12. Human Intelligence

¹¹ <http://www.eda.europa.eu/WebUtils/downloadfile.aspx?fileid=1209>

This as well as instant demands in relation to capabilities has led to a rather high number of projects and activities. Although these lists of projects might seem impressive for such a small agency, its work is nevertheless limited due to the above mentioned restrictions imposed by the member states.

- **European Air Transport Fleet (EATF)** based on the pooled acquisition of airlift assets, an option currently under consideration to enhance EU capacities in strategic lift. The EDA contributed to setting up the EATF, implementing all forms of cooperation between the different European air transport operators (in terms of training, acquisition, delivery, logistics, planning and conduct of transport operations). The impetus that the EDA has given to improving helicopter availability (modernisation of fleets and training of crews) follows the same logic,
- **MUSIS (Multinational Space Based Imaging System)**, coordinated by the EDA and involving Belgium, France, Germany, Greece, Italy and Spain, is essential for the EU. Its aim is to develop a space imaging system for defence and security purposes in order to increase Europe's strategic autonomy and strengthen its decision-making capacities in the military field.¹²
- **Software Defined Radio**, including management of the €125 million, six-nation ESSOR project which aims to improve interoperability of future SDR systems;
- **CBRN, Chemical Biological Radiological and Nuclear**, especially looking at Explosive Ordnance Disposal (EOD) of CBRN weapons and devices and Detection Identification and Monitoring (DIM) of CBRN hazards, including Toxic Industrial Materials (TIM);
- **Maritime Surveillance(MARSUR)**, more precisely the development of Maritime Surveillance networking capabilities, the launch of a programme on a Maritime Tactical Unmanned Aerial System and new capabilities for identification of small and non-cooperative targets;
- **21st Century Soldier System, Non Lethal Capabilities**, enhanced armoured protection and enhanced battlefield awareness are all developing capabilities, these different systems need to be introduced in a coherent, interoperable and effective manner;
- **Helicopters Training**, to quickly improve helicopter availability. Helicopter crews in some European countries are not trained to fly in more austere conditions, such as mountainous terrain. The Agency is developing a "Helicopter Tactics Programme" (HTP) for such training at the European level.
- **Unmanned Aerial Systems (UAS) Air Traffic Insertion:** The projects work towards common and accepted standards of operation to enable integration of these systems into General Air Traffic or non-segregated airspace.
- **Military airworthiness Authorities (MAWA) Forum** The MAWA forum aims to progress harmonisation of national airworthiness activities. The forum is managed and coordinated by the EDA, who provides the organisational and administrative support.
- **Counter Improvised Explosive Devices (C-IED)**, where the Agency has developed several work strands such as training courses on specific C-IED and Explosive Ordnance Disposal (EOD) aspects., a mobile field laboratory for forensic research of IEDs,
- **Network Enabled Capability (NEC)** aim to ensure that communication and information technologies are exploited so that information can be shared and made actionable. It involves not just the development and deployment of technologies, but agreed doctrine, concepts and common standards, so that all actors can benefit from the knowledge.
- **Third Party Logistics Support (TPLS)** gives economic operators the opportunity to advertise their services alongside a Catalogue of Services covering the whole spectrum of logistic support whereas contracting authorities have the possibility to search for commercial solutions for mission and operation-related logistics

¹² http://www.assembly-weu.org/en/documents/Fact%20sheets/15E_Factsheet_EDA.pdf?PHPSESSID=f3137d60

- **Joint Investment Programme-Force Protection (JIP-FP)** is a mechanism for EU collaborative action in Defence Research and Technology. It focuses on technologies for protecting EU armed forces against threats such as snipers, booby traps and improvised bombs, establishing the three-year Programme worth € 54.93 million and involving 20 European governments
- **Joint Investment Programme-Innovative Concepts and Emerging Technologies (JIP-ICET)**, devised by EDA, for research into emerging technologies which might have a disruptive effect on the battlefield

2.4 EU Commission- increasing its role ¹³

While the majority of members states aimed to keep armaments issues their domaine reserve, the EU Commission has succeeded to establish a firm stance at the intersection of defence vis-à-vis issues of internal market, industrial policies and research. It may be the only actor that can effectively establish a framework for competitiveness through defence specific legislation and policies.

A litmus test for the Commissions future role will be the implementation of the defence package, a set of two directives that offer a harmonized legal framework for procurement and transfers of military items. The package not only engages with the member state dominance in the armaments domain. If implemented it could also lead to a profound change in procurement practice.

The EU- Commission has acquired over the last years a serious reputation in the area of EU security and defence policy. Many EU member states always aimed to keep armaments issues a domaine réservé. Although member states suffer from the current market structure, they insist on the non-responsibility of the Commission for this policy field and deny the Commission's expertise in security political issues.¹⁴ The Commission perceives itself as the guardian of principles like the single market, fair competition or free trade.

It has developed a footprint in defence through the intersection of defence and non-defence issues in three areas:

- Backed by the jurisdiction of the European Court of Justice (ECJ) the Commission has increasingly called for the introduction of **Internal Market elements** into the EU defence sector (DG Market).¹⁵
- In **industrial policy** (DG Enterprise) The key objective of the European Commission's defence industrial policy is to develop an innovative and competitive European Defence Technological and Industrial Base (EDTIB). A competitive EDTIB is also required to provide Europe with affordability and the ability to cooperate internationally in the development and production of defence equipment.
- In **research** (DG research) especially, through the recently set up security research programme.

Moreover the Commission may be the only actor that can effectively establish a framework for competitiveness through defence specific legislation as it has done through the defence package for Transfers and Procurement (see below). Equally the commission can set up defence specific or related policies and regulations e.g. for SMEs or standardization. Intergovernmental initiatives have failed so far. (See EDA above)

Procurement and Transfers - The 2009 Defence Package

The recent (2009) Commission initiative, the so called *defence package*, bears revolutionary potential: its two Directives address defence and security procurement and intra-EU transfers of military goods. This

¹³James Copping: EDA – EU Commission relations: Defence Package and related activities <http://www.defensa.gob.es/dgamue2010/PresentacionesSeminar10/Madrid%20EDA-CION%20relations%2015%20Feb%202010.pdf>

¹⁴Martin Trybus 2004: The Limits of European Community Competence for Defence European Foreign Affairs Review 9: 189-217.

¹⁵European Commission, 2006: Consultation Paper on the Intra-Community Circulation of Products for the Defence of the Member States, Brussels March 2006: 3

not only engages with the member state dominance in the armaments domain. If implemented it could also lead to a profound change in procurement practice.

The Defence and Security Procurement Directive covers military and sensitive security equipment (and associated services and works), thus equipment that may be exempted from the current public procurement regulations through Article 346 TFEU. It sets Community procurement rules which are adapted to the specificities of the defence/security sectors. It allows, for example, the use of the negotiated procedure with publication as the standard procedure and provides special provisions for security of supply and security of information. The new directive still allows for specific exemptions from competition. However, their use is limited to truly exceptional cases. It aims to open the European Defence Market to increased levels of competition. Therefore, observers anticipate that a far greater proportion of defence and security requirements will be advertised. However, there is a serious exemption: Cooperative armament programmes, one of the most expensive, time consuming and inefficient ways to generate capabilities, are excluded from the new procurement rules.

The Directive on EU transfers of Defence-related products engages with the divergent national systems to control the transfer of defence equipment to another EU member state. Two problems entail both costs as well as a significant level of uncertainty. First, there is no formal distinction between transfers within the Union and exports to third countries outside. Second, although such licenses are granted on a routine basis, they cause a considerable amount of red tape, disturb the smooth running of inner-European production processes and endanger the security of supply between member states. The directive introduces a EU-wide licensing and certification system without sacrificing member states' control over their essential defence and security interests. Certification is granted at national level and is meant to testify the special ability of defence undertakings to handle defence-related products.¹⁶

Security research in the 7th framework research programme

Under the heading of the 7th framework research programme, the Commission has set up a Security Research programme. Given the constant blurring boundaries of security and defence this programme has been perceived by many as another foot of the Commission in the door of defence issues. Synergies and added value of the programme increase tremendously if the results can be transferred into the defence domain. This opportunity is especially given in those cases where companies participate that produce for both the security and the defence domain.

The Security Research programme is exclusively dedicated to civil applications foci and supports the implementation of Community policies and initiatives relevant to security such as the establishment of an area of freedom, security and justice, transport, health, civil protection, energy, environment and external policies. It aims i.e. to develop technologies and knowledge for building capabilities needed to ensure the security of citizens from threats such as terrorism, natural disasters and crime, while respecting fundamental human rights including privacy.

¹⁶ C. Mölling: Options for a Regime on Intra European Transfers of Defence Items. In: Daniel Keohane (ed): Opening Europe's Defence Market. Chaillot Paper 113, Paris, EU ISS, 2008: 51-88.

2.5 The Lisbon Treaty- institutional innovations but political inertia

The Lisbon treaty offers an innovation package that allows improving the coherence of the overall institutional framework. Especially the protocol on *Permanent Structured Cooperation (PSCoop)* could strengthen the area of EU-capability generation, bolster the link towards the armaments framework and reinforce EDA's role. This new cooperation mechanism shall allow capable and interested EU member states to enhance their cooperation in the in the area of capabilities, equipment and forces. It opens up a midterm perspective for savings in national defence budgets through joint projects and maintenance.

However, member states have been reluctant so far, to table tangible suggestions to implement PSCoop, let alone to commit themselves to precise projects. The current stalemate: results from ambiguous political visions and strategic objectives: an unclear road to implementation and a missing financial boost: given the current financial crisis.

The Lisbon treaty comprises a series of innovations designed to increase the coherence and capabilities of the EU as a security actor. It affects the area of CSDP in two ways. First, the general harmonization of the overall institutional framework should facilitate relations between the Council and the Commission with respect to crisis management issues. Second, several articles in the treaty intend to strengthen the area of capability generation. These elements have to be seen in conjunction.

Institutional coherence and conceptual progress

The Lisbon Treaty confirms the commitment of the EU to the progressive framing of a common defence policy. It aims to give ESDP a new quality by changing the name into CSDP – Common Security and Defence Policy. The aim of CSDP is to provide the EU with an operational capacity drawing on civilian and military assets. As for the operational scope, the treaty for the first time includes the extended list of Petersberg Tasks.

However, it doesn't touch upon several thorny issues: The principle of unanimity remains a cornerstone of security and defence cooperation in the EU. While Qualified Majority Voting applies in some cases for CFSP, it is excluded altogether when it comes to decisions that have military or defence implications. Any modification of this provision is explicitly excluded. The Lisbon Treaty states that "national security remains the sole responsibility of each Member State."

One of the most important institutional innovations concerns the creation of the post of a High Representative of the Union for Foreign Affairs and Security Policy (HR). This post aims to allow EU external policies to be formulated and implemented more coherently and to provide Europe with a visible and continuous representative. It integrates the former positions and functions of the EU Commissioner for External Relations and the High Representative for the Common Foreign and Security Policy, which are in turn abolished. Acting as vice-president of the Commission the task of the HR is to assure effective inter-institutional coordination between Community elements of EU external relations and CSDP.

The treaty also refers for the first time to the European Defence Agency (EDA), which was set up by the EU member states in 2004. Furthermore, it introduces a solidarity clause and a mutual defence clause. The former obliges the member states to support each other in case of a terrorist attack or a disaster. The mutual defence clause compels them to offer aid and assistance if one of them is victim of an armed aggression on its territory. However, this clause explicitly does not affect the national defence policies of member states, their neutrality, or alliances. It confirms NATO as the basis for the collective defence of its members.

Both clauses together cover the full spectrum of scenarios that may require EU member states to provide mutual assistance. While they leave the decision on the kind of assistance to the member states,

they offer a legal formula for the use of civilian and military assets within the EU territory at the request of an individual member state and with the consent of the EU.

Permanent Structured Cooperation

In the area of capability development, the Lisbon Treaty envisages „permanent structured cooperation“ in defence issues (PSCoop). This new cooperation mechanism shall allow capable and interested EU states to enhance their cooperation in the in the area of capabilities, equipment and forces. Thus, once implemented, PSCoop potentially has a double impact: first, it enables the EU member states to engage in a more coherent development of the desperately needed military capabilities. Second, it opens a midterm perspective for savings in national defence budgets through joint projects and maintenance.

However, until today EU-states have avoided to table tangible suggestions to implement PSCoop, let alone to commit themselves to any precise project. Three issues add to the current stalemate:

First, ambiguous political visions and strategic objectives: Many ideas are in the air, but they are rarely compatible. Moreover, current debates in policy and academia alike are short of precise examples about what PSCoop could achieve for the states and the EU. They neither address nor compare with other options such as the cooperation within EDA. Nor do they outline direct revenues of participation in PSCoop.

Second, the road to implementation is not clear: The discussed principles and criteria to define the implementation of PSCoop are rather abstract. What lacks is an evolutionary approach that would build on existing cooperation projects and preferences in the area of defence and that would seek to answer the question what member states want to achieve with PSCoop and how these varying interests could be integrated.

Third a missing financial boost: PSCoop implementation is hit by the current financial crisis. Given the difficult state of debate the member states consider investment in PSCoop as a financial risk. National decision makers find themselves unable to organise the financial basis for a rapid transformation into a more EU-focused defence economy that would generate midterm cost savings and a more coherent capability basis for EU-forces.

Consequently, PSCoop is at the crossroads: missing specification and lack of insight in what, who and how. In addition, the bargaining tactics of the member states risk to fizzle out the implementation process. This would not only mean to miss an important window of opportunity for defence cooperation. PSCiD is also the only palpable novelty in CSDP. Failing to deliver in PSCiD would seriously damage CSDP.

The objective of PSCoop is to enhance the EU's operational capabilities through collaborative efforts. Yet, many of the provisions on PSCoop are still vague. This is especially true for the kind of cooperation that can come about under PSCoop – in terms of content, with regard to outcomes, and in terms of who will or can participate.

With regard to participation, PSCoop will operate on an opt-in basis. Accordingly, there is no obligation for member states to take part. It is open to those member states that meet two criteria: First, their willingness “to proceed more intensively” to develop their defence capacities through the development of their national contributions and participation in the respective multilateral endeavours; and second, their capacity to supply capabilities, either at national level or as a component of multinational force groups, structured at a tactical level as a battle group.

Concerning the first criterion, its main deficit is the lack of any benchmark. As for the second criterion, all it asks for is some marginal participation in an EU Battlegroup (EUBG). In fact, PSCoop was one of the driving forces behind the participation in EU BGs for many smaller states, as they did not want to be perceived as second-class members. However, they did not want to engage in costly capability development for EU BGs either. By eventually succeeding in watering down EU BG entry criteria, they

also ended up blurring the idea of PSCoop. What was originally designed as an exclusive club has lost much of its distinctive character – which is bound to have negative effects on the quality of PSCoop.

2.6 Potential areas of permanent structured cooperation indicated in the protocol (article 2)

- Ensure level of investment expenditure on defence equipment
- Synchronization of national defence apparatuses
- harmonization in identifying requirements
- pooling or role specialization
- cooperation on training and logistics
- Enhance the ability to commit forces, particularly through...
- enhancing availability, interoperability, flexibility, deployability
- identification of common objectives for commitment
- review of national decision-making procedures
- Bi- or multinational cooperation to remedy shortfalls of the “capability development mechanism”
- Joint equipment programs under EDA framework

However, the protocol does not specify projects or other substantial elements of cooperation. Currently, the EU governments seem to have no precise idea on how to use PSCoop. Basically, two options can be imagined: to integrate existing multilateral projects into the framework of PSCoop, or to establish new ones. With regard to the former, a potential initiative is the so-called Lol (Letter of Intent) Agreement among the major European arms-producing countries.

The advantage of starting with existing projects is that the partners know each other and are accustomed to a certain routine and culture of cooperation. But under which circumstances would these projects be open for participation by new members? States that already participate in such frameworks are likely to be reluctant regarding unconditioned enlargement. Especially if new members are integrated for political rather than substantive reasons, cooperation would be obstructed rather than intensified, leading to less than optimal effectiveness. Although PSCoop can be set up by qualified majority, it is hard to imagine that such a move would actually be undertaken against the explicit opposition of other member states.

A final aspect of PSCoop requiring clarification is the role of the EDA. While the Lisbon Treaty calls upon the Agency to “contribute to the regular assessment of participating Member States’ contributions with regard to capabilities”, it fails to spell out how this ought to be done. Given that the member states make up its governing board, it will be interesting to see how EDA will proceed with this sensitive issue. Who will develop assessment criteria? Will they be listed and become auditable? If EDA is to emit recommendations, how can it make sure that member states take them into account? The issue seems even more complex since EDA and some member states pursue a capability-based approach to defence planning, whereas other member states continue to apply a threat-based one. This could generate assessment results that are not comparable.

3 THE IMPACT OF THE FINANCIAL CRISIS ON EU MEMBER STATES' DEFENCE SECTOR AND INTERMEDIATE OUTCOMES

This chapter evaluates the effects of the financial crisis on the defence sectors at national and EU levels. It offers a synthesis of the convergence and divergence in trends across the EU. The prime interest lies in identifying whether and how these may represent risks or opportunities for the EU Member States' Defence Sector and the future of CSDP.

3.1 Strategic impact: Short and long term effects of the financial crisis on public budgets

The EU may be at the beginning of two decades of austerity for public budgets. The accumulated debts pose a long-term problem and growing risk for the EU economies. It can be assumed that current budgetary constraints for EU governments will persist at least until 2030. At least 1% of GDP per year or more would have to be invested to put debt levels on a firm downward path over the coming two decades.

Although a majority of EU MS is affected, effects and reactions differ: the extent to which consolidation of national budgets has been prioritized is a matter of national traditions in economic policy. Despite observable differences a majority of states has been affected by the crisis and has decided on major consolidation measures.

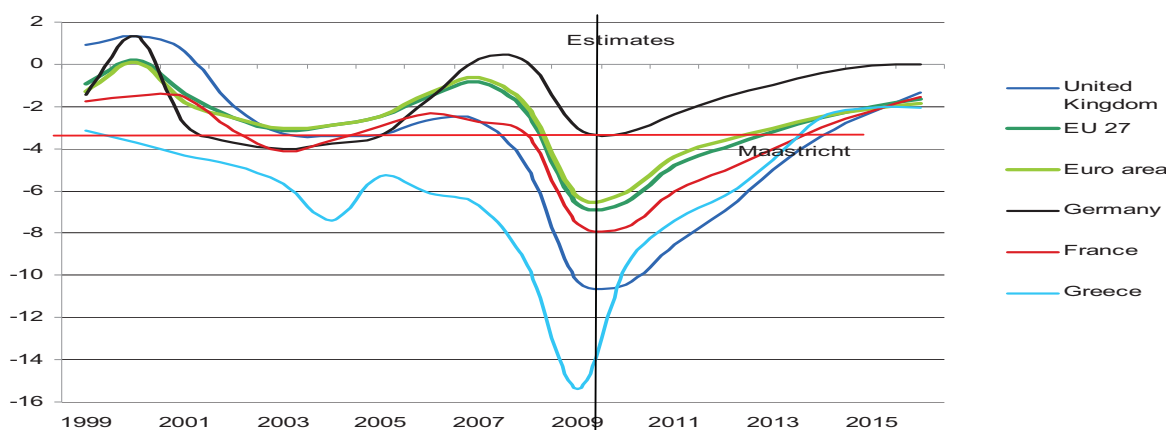
With the exception of Sweden, Poland, France, Finland and Denmark, all states are implementing more or less drastic consolidation measures strongly affecting defence spending. However, those who currently wall fence their defence budget cannot circumvent the growing pressure over the next years. While the EU currently debates and experiences the short term consequences of the financial crisis, the long-term effects are still ahead of the Union's public budgets.

Macro economic impact: two decades of austerity

The financial crisis hit the EU in 2008, creating two related problems. It forced the EU Member states to increase their public debt. As an immediate response, almost all member states had to lend money to ensure national recovery. This has increased public debt significantly. This alone sets a risk for the financial stability of the EU.

General government net lending/borrowing

Percent of GDP

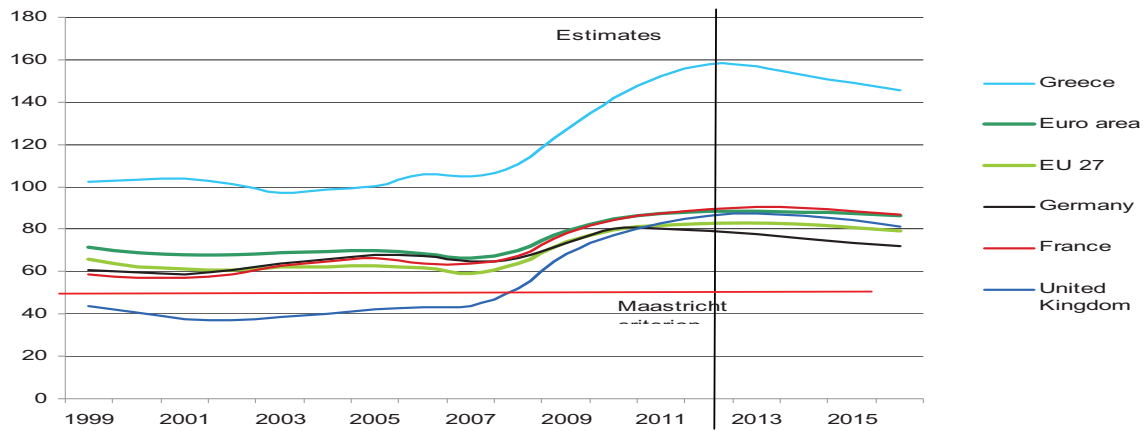


Source: International Monetary Fund, World Economic Outlook Database, April 2011

However, the crisis continues to impact. It forces the EU also in future to borrow money. Even if estimates show that the Maastricht criteria for annual debt could be kept from 2014 onwards, the level of gross debt is likely to remain above the pre-crisis times for the next two decades.¹⁷

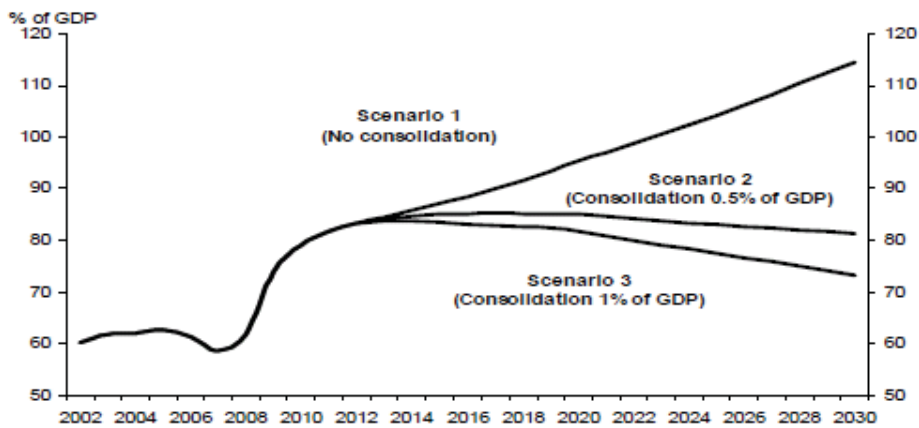
General government gross debt

Percent of GDP



Source: International Monetary Fund, World Economic Outlook Database, April 2011

Moreover, while the economy shows first signs of recovery, these debts pose a long-term problem and keep up the risk for the EU economies and their political systems as a whole. Reducing public debt is without alternative in order to reduce this risk Public spending will have to decrease. It can be assumed that the current budgetary constraints EU governments find themselves in will persist at least until 2030 (see graph below).¹⁸ Given the forecasted demographic development a further strain will be put on public finances by the requirements of an ageing population.¹⁹ As a consequence governments will be hard-pressed to find ways to reduce their expenditures in other areas. It can be assumed that the overall size of government budgets will be constrained and that any significant rise for particular budget items will come from reductions in other parts of the budget.²⁰



Source: EU Commission: annual growth survey. Macro Economic report Annex 2 Brussels, 12.1.2011 COM (2011) 11 final.

¹⁷ See also: Flanagan, S.J., A Diminishing Transatlantic Partnership? The Impact of the financial crisis on the European Defense and Foreign Assistance Capabilities, CSIS Report, Washington, May 2011.

¹⁸ EU Commission: annual growth survey. Macro Economic report Annex 2 Brussels, 12.1.2011 COM(2011) 11 final.

¹⁹ For details see DAS (2008). Geostrategic perspectives for the next thirty years. Report made under the direction of the Délégation aux affaires stratégiques. Paris, Délégation aux affaires stratégiques.

²⁰ SANDERA: The future impact of Security and Defence policies on the European Research Area – Report on Policy implications, to be published May 2011

According to the EU Commission, explaining the graph above:²¹ "...simulations indicate that an annual improvement of the structural budget balance of 0.5% of GDP - the conventional benchmark under the provisions of the Stability and Growth Pact (SGP) - would clearly be insufficient in many EU Member States to bring the debt to GDP ratio close to the Treaty-based threshold of 60% of GDP in the foreseeable future (see Graph above). Only fiscal corrections of 1% of GDP per year or more would put debt levels in percent of GDP on a firm downward path over the coming two decades. However, fiscal consolidation, while absolutely necessary, might not always be sufficient to reverse adverse debt dynamics quickly and durably. Stronger output growth is imperative to increase fiscal revenue and lower unemployment-related expenditures, while automatically reducing the level of debt expressed as a share of GDP... As a result, fiscal policy makers in the EU face a formidable double challenge: putting fiscal policy back on a sustainable path while protecting or supporting short-run economic growth and employment. Under current circumstances, there is reason to believe that getting public finances in order will have a positive impact on economic growth in the medium run. Delaying fiscal adjustment would only push out and compound the problem. It would seriously compromise our ability to actively shape our future, and heavily mortgage future generations."

Diverging effects among the EU member states

Despite observable differences a majority of states has been affected by the crisis and has decided on major consolidation measures. With the exception of Sweden, Poland, France, Finland and Denmark, all states are implementing more or less drastic consolidations measures strongly affecting defence spending. Still, no unified European response to the financial pressure has emerged.

Each member state has first and foremost been dealing with the necessary fiscal adaptations at national level, most states having adopted savings plans for the period 2010-2013 or 2011-2014. Taking a closer look at the individual EU states, the extent to which consolidation of national budgets has been stringently prioritized is a matter of national traditions in economic policy. Keynesian economies such as France or Italy are used to run larger national deficits than others and have thus been more lenient with regard to savings than others, such as the UK or Germany.

3.2 From savings imperatives to defence cuts

The impact of the budget pressure on the EU member states' defence apparatuses differs significantly. This diversity results especially from different degrees of importance attributed to defence.

While significant cuts in defence budgets are planned or under the way in Germany and the UK, but also in a number of middle sized and smaller states others like Poland and Sweden record growing defence budgets. Most dramatic cuts of all are to be found amongst the small EU-member states, with rates above 30%. The majority of middle-sized states implemented average cuts of 10% in their defence budgets. Among the bigger EU countries under pressure, there seems to be most political and economic room for manoeuvre.

The impact of the financial crisis on the EU-27 individual defence apparatuses is quite diverse. Effects came with some delay in the defence budgets from 2009 onwards. At one extreme, one currently finds significant cuts in defence budgets such as in Germany and the UK, but also in a number of middle sized and smaller states. At the other extreme, some states record steady (Finland, Denmark) or even growing defence budgets (Poland, Sweden).

This diversity results chiefly from different degrees of importance attributed to defence. The extent to which defence budgets had or have to pay their due to national consolidation efforts depends largely on the place and value attributed to defence as expression of national identity. Some heavily affected member states, such as Finland and Denmark, for instance, decided to keep defence budgets steady.

²¹ Source: EU Commission: annual growth survey. Macro Economic report Annex 2 Brussels, 12.1.2011 COM(2011) 11 final.

States such as France or Italy have been strongly affected by the crisis, but the consolidation packages in the defence sectors do not quite reflect a degree of fiscal urgency.

Most of the bigger EU countries are under pressure to consolidate their national budgets. However, the extent to which this affects the defence budget is a political decision. Moreover, even in those cases the Treasuries imposed saving imperatives on MoDs, they are not necessarily being prepared and implemented immediately, like in the case of Germany.

The British defence budget that had already been under considerable strain will now be confronted with an additional 8% cut between 2011 and 2014. These 8% cuts are significant because possible savings have been realized through earlier rounds of defence spending cuts. In Germany, no concrete road-map has been defined to implement the savings of €8.3bn required by the Finance Minister of the MoD and the armed forces between 2011 and 2014 to comply with the national debt ceiling. Cuts in Spanish defence spending started in 2009 with the first decrease in the defence budget by 3% in ten years. Additional 6.2% cuts were made in the 2010 budget. A national consolidation package of €15bn was adopted that same year. The defence budget for 2011 is forecasted to suffer an additional 7% cut in comparison to the previous year.

The French government comparatively spared its MoD, despite being strongly affected by the global recession: Declared savings for the period 2011-2013 amount to roughly €3.5bn and the national defence industry has benefited from a stimulus package for armaments of around €2.3bn for 2009 and 2010 and a boost in national demand to keep up certain lines of production (Rafale, BPC Dismude). The Italian Finance Ministry has imposed 10% budget cuts for all Ministries over the timeframe 2010-2011. However, after a dip of about 4.5% in the defence budget for 2009, the budget request for 2011 shows a slight increase of 0.5% in comparison to the base budget of 2010.

The Swedish government has barely been affected by the crisis and has gone on with its planned reform agenda with no planned cuts in procurement and modernization. Whilst the core defence spending is kept flat between 2010 and 2011, a supplement of €4.8bn p.a. between 2010 and 2015 has been adopted to cover modernization expenses. The Polish defence budget suffered cuts of 20% in 2009 but has since then been marked by a healthy recovery with no reductions in 2010 and an unexpected rise by 7.1% in 2011, including a 16% increase in investment spending.

Most middle-sized states implemented average cuts of 10% in their defence budgets. Yet some did so over a one-year-period (e.g. the Czech Republic for 2011, Ireland for 2010, 11% for Portugal in 2010) and others over a two-year period (e.g. Belgium from 2009 to 2011). The most important cuts in this category were experienced in Greece (-18% in 2010 and -19% in 2011) and Romania (-17%). Bulgaria started with 38% cuts in its budget in 2010, but found this budgetary situation untenable due to foregone contracts and compensated the budget. Whilst Denmark and Finland were the most affected countries in the Nordic/Scandinavian region, they resisted too significant defence cuts, opting instead for modest increases over the coming years, while seeking greater efficiency in their military apparatuses.

The most dramatic cuts of all are to be found amongst the small EU-member states. Latvia implemented a 21% cut in its 2009 budget, whilst Lithuania had to implement a 36% cut in its 2010 budget. Cyprus' budget has slightly increased. Information on Luxembourg, Malta, Slovenia and Slovakia is currently not available.

3.3 Problems and Measures imposed on the Defence Sector in the Wake of the Crisis

In those states deciding to implement defence-related cuts, the decision how to distribute savings across the defence apparatus has varied. The most significant differences relate to the decision whether to privilege the modernization of equipment and R&T over end-strength or not.

Level of Ambition (LoA): Until today only the UK has changed its LoA, but Germany might follow soon. But on the general LoA among EU still shows the same distribution as before the crisis: A key interest shared among almost all EU member states is to enhance the sustainable deployability of the armed forces in distant theatres. Additionally, the bigger EU countries aim to maintain *full-spectrum forces*. On the lower end, middle-sized and small member-states aim to offer *niche capabilities* in future and work towards role specialization.

Personnel: majority of EU states struggles with personnel costs due to overblown bureaucratic structures in their Defence Ministries and top-heavy armed services with too large a proportion of high-grade, high-income militaries. Cuts in wages or pay freezes are common as well as reducing civilian personnel. Some states seem to have decided on cuts in military end-strength. However, reducing personnel costs may clash either with long-term contracts or with already streamlined forces, where further reductions would directly hit capabilities and the ability to contribute to NATO and EU operations. The latter situation holds particularly true for the UK and Sweden. Regularly, the most expensive soldiers or civilians can be found in the upper rungs, being public servants. Hence, reducing their impact on the budget would require additional resources for golden handshakes, or other forms of compensation.

Armaments: Generally, cuts in the area of procurement planned or realized reached a much lower level across EU member states than discussed at the beginning of national response plans. However, due to very diverse reactions the risk of a growing gap between “modernizers” and “procurement cutters” increases. Slaying such projects endangers modernisation and is often not a practicable solution, as many states are bound to these projects by long-term contracts. Cancellation of contracts often incurs costs through penalty clauses comparable to the original costs for the equipment. Besides, they have to factor in the effects lower investments in defence procurement will have for their defence contractors. Hence, especially bigger member states and those with considerable a defence industry, have decided to keep their procurement contracts. But almost all countries aim to either delay the programme output or to reduce the quantities to be purchased. Some medium-sized and small states decided to postpone decisions on the modernization of key conventional capabilities whilst others clearly prioritized the modernization of such capabilities.

Operation and Maintenance: Most large member states and an important segment of medium-sized states accelerated the decommissioning of older capabilities. One noteworthy trend in reactions to the financial pressures is the cuts in which has gone hand in hand with an increased interest in using simulators for training, outsourcing training to private firms.

International Engagement: Despite strong pressures on the defence budgets, almost no member state has to date opted for a withdrawal from ongoing military engagements. However, most member states did reduce the number of troops in certain missions and/or shift their weight across their multiple engagements. With no exception, these shifts occurred to the advantage of the ISAF-mission in Afghanistan.

The EU-based defence industries have not been seriously affected by the crisis so far. But a long-term fiscal downturn may imply serious programme cuts, market shrinkages or delays for new programmes lying ahead for almost all EU member states. While the demand may lower, it will come along with increased value-for-money imperatives. This may turn into additional arguments for EU-based companies to further develop footholds in the US and emerging markets like Asia and South America. Member states with significant defence industry have reacted quite differently so far – in line with their traditional approach to defence industrial policy. Cross national coordination has only taken place to some extent among France and the UK. The main objective is to consolidate or protect national assets.

Armed Forces: Three Levels of Ambition and the Impact of the Financial Crisis

The impact of the crisis on the military coincides with the implementation of already established reform processes. It may well change the existing levels of ambition (LoA) of individual member states. These can currently be divided into three levels of ambition:

- A key interest shared among almost all EU member states is to enhance the sustainable deployability of the armed forces in distant theatres.
- Additionally, the bigger EU countries aim to maintain *full-spectrum forces*.
- *On the lower end*, middle-sized and small member-states aim to offer *niche capabilities* in future and work towards role specialization.

Almost all EU member states are still re-shaping their national armed forces from territorial defence into expeditionary tasks. Despite consistent downsizing efforts since the early 1990s, most big and middle-sized member states started their more serious overhaul efforts between 1999 and 2001. Another wave of reforms started between 2004 and 2006. The financial crisis may add further pressure on the downsizing of national levels of ambition that are part of a shift of the armed forces from a posture of territorial defence to force projection. It may also imply to rethink the ability to deliver necessary capabilities through multinational efforts. So far, only the UK has lowered its LoA officially, however German plans are heading into the same direction.

All bigger EU Countries aim to maintain *full-spectrum forces*, as well as Portugal and Bulgaria. They want to be able to engage in high-intensity scenarios, i.e. conventional state-to-state warfare, as much as in stability and peace operations. Even Sweden has re-focused on conventional capabilities since the incidents in Georgia in 2008. In these cases, the financial crisis looms large. It remains questionable to what extent a critical quantity of conventional full-spectrum capabilities can be sustained nationally by small forces, given that these are most the expensive capabilities.

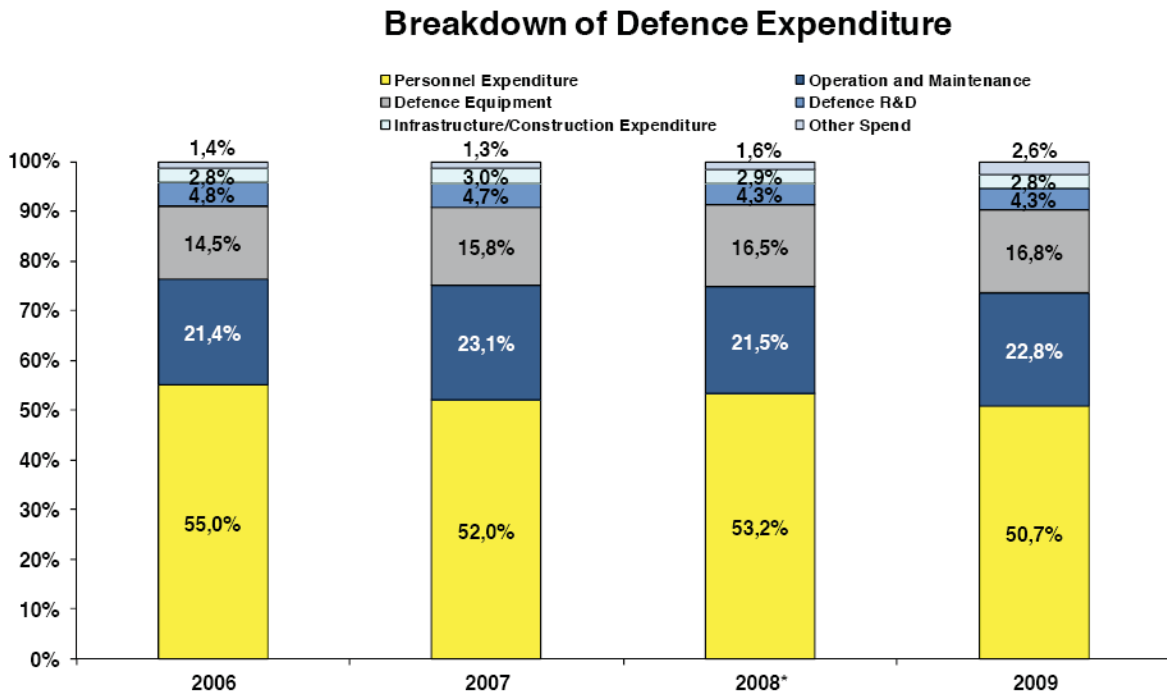
A large majority of middle-sized states are shifting their capability balance towards those needed in *multilateral stability operations*, even though territorial defence is of course not fully abandoned in national defence postures. Finland and Greece are two noteworthy exceptions to this main trend, as both are still almost exclusively focused on guaranteeing territorial defence and maintaining adequate capabilities: Finland focuses on the perceived threat emanating from Russia. Greece pays its due to a long-held rivalry with Turkey through exorbitant defence expenses in conventional capabilities.

A number of middle-sized and small member-states explicitly aim to offer *niche capabilities* and work with other smaller states towards a role specialization. These countries are not able or willing to maintain armed forces covering the entire spectrum of conflict anymore. Belgium maintains niche capabilities for conventional conflict (combat aircraft, special forces, frigates and mine-hunters); the Czech Republic focuses on NBC protection, MedEvac and electronic warfare; Romania is building up niche capabilities in the special operations sector in cooperation with the United States; Hungary is starting to draw up options for specialization, including a focus on NBC protection and favouring cooperative role-specialisation with smaller nations such as Austria, Slovenia, Finland and Belgium. Luxemburg specializes in reconnaissance and Latvia in medical response, military police and engineering support. Cyprus and Slovakia have expressed an interest in identifying options for specialisation but haven't yet done so.

Personnel Expenditure: difficult to shrink

Personnel expenditure accounts for more than 50% of the EU member states defence budgets. Italy, Bulgaria and Romania represent extremes in this respect, as they spend between 70% and 80% of their defence budget on personnel costs. On top of 1.6 mio soldiers, more than 400,000 civilian personnel work in EU defence ministries.²²

Breakdown of Defence Expenditure



Source: EDA: Additional Defence Data 2009, Brussels 2011

A large majority of EU states struggles with personnel costs due to overblown bureaucratic structures in their Defence Ministries and top-heavy armed services with too large a proportion of high-grade, high-income militaries.

However, reducing personnel costs may clash either with long-term contracts or with already streamlined forces, where further reductions would directly hit capabilities and the ability to contribute to NATO and EU operations. The latter situation holds particularly true for the UK and Sweden. Regularly, the most expensive soldiers or civilians can be found in the upper rungs, being public servants. Hence, reducing their impact on the budget would require additional resources for golden handshakes, or other forms of compensation. Moreover, these people are needed to implement defence reforms, as they often have blocking power within the defence bureaucracies. While defence reforms have already led to leaner personnel structures, reduced end-strength, and increased deployability, they have not been able to replace this type of personnel.

Current efforts to cut personnel costs due to the savings imperative mount up to 20 % (Bulgaria) or even 30% (Netherlands) over the coming years. Efforts take different forms: Cuts in wages or pay freezes are common, notably in Spain, the Czech Republic, Greece, Portugal and Lithuania. Reducing civilian personnel is an option favoured by the majority of member states. Some states seem to have decided on cuts in military end-strength (Italy, Austria, and Belgium).

In France, drastic cuts in personnel as part of ongoing reform plans have already been on the agenda since 2008. The UK has had already implemented significant cuts. Therefore recently decided reduction

²² EDA: Additional Defence Data 2009, Brussels 2011; Denmark has been left out, as it is no participating member state of EDA

of military personnel will hit directly the capability as almost all buffers have been melted down. In Germany, ongoing reform plans of the *Bundeswehr* also involve cuts in end-strength of about 25% to around 185,000. As this will mainly be achieved by scraping conscription, turning the *Bundeswehr* into a professional army will induce extra costs. Despite initial declarations that no crisis induced structural changes were foreseen, the Spanish government recently announced cuts of up to 6,000 jobs and significant cuts of almost 40% with regard to the armed forces' modernization until 2013. Despite a comparatively relaxed fiscal situation, Poland engages in an overhaul of the MoD's spending structure by reducing personnel-related expenses through civilian job cuts of up to 10% and additional cuts in the military by 2012. No cuts in defence-related personnel are planned in Sweden thanks to a comfortable financial situation.

Armaments: potential gap between modernizers and procurement cutters

As a first reflex, many countries sought to cut the costs of procurement contracts and armament projects. This may slow down or endanger modernisation and is often not a practicable solution, as many states are bound to these projects by long-term contracts. Cancellation of contracts often incurs costs through penalty clauses comparable to the original costs for the equipment. Besides, they have to factor in the effects lower investments in defence procurement will have for their defence contractors.

Resulting from this mixture of motivations cuts have been realized to a much lower level than discussed at the beginning of national response plans. Still, ongoing debate and decision fuels the risk of a growing gap between "modernizers" and "procurement cutters" at the EU level. Especially bigger member states have decided to keep their procurement contracts. But almost all countries aim to either delay the programme output or to reduce the quantities to be purchased. Some medium-sized and small states decided to postpone decisions on the modernization of key conventional capabilities (esp. multi role combat aircraft, such as the replacements of F-16s for Denmark), whilst others clearly prioritized the modernization of such capabilities (Portugal decided to keep up the modernization of the Air Force while cutting the modernization budget of its land forces by 40% p.a. until 2013, Finland decided on the mid-life upgrade of its F-18s).

A number of cuts in modernization efforts and procurement are almost certain in France, although sectors such as deterrence and ISR will be preserved no matter what. In Germany, cuts and postponement in procurement have not been coordinated enough to effectively contribute towards the needed amount of savings. In Poland, administrative reform and cuts in end-strength go hand in hand with prioritizing expenses for the modernization of the armed forces. Sweden is in a similarly comfortable situation: Supplementary allocations for the period 2010-2015 will boost the reform of the armed forces and for equipment in particular.

Much like France, Italy protects its domestic defence industry through increases in the investment part of the defence budget. The Ministry of the Economy, for instance, still provides a large share of national procurement money that is not accounted for as defence-related expenses. Furthermore, Italy prioritizes modernization of equipment and in turn tolerates additional cuts in end-strength not foreseen by initial reform plans to compensate.

Programmes spared from cuts were mostly of direct relevance to ongoing military missions (strategic and tactical airlift capabilities, SAR, CSAR, UAVs, armoured vehicles). Other states, such as Denmark and the Netherlands, however, decided to cancel a programme such as NATO's Allied Ground System despite its transatlantic relevance and left uncertainty as to future orders of the Joint Strike Fighter beyond a continued commitment to financing its development and testing phase.

Operation & Maintenance: Decommissioning Old Equipment

Most large member states and an important segment of medium-sized states accelerated the decommissioning of older capabilities (e.g. UK, Portugal, France, Germany, Austria, Czech Republic, Denmark, Finland, and the Netherlands). Most of them (e.g. Portugal, France, Germany, and Austria) try to re-sell them on the European and extra-European markets. How to deal with ongoing acquisition programmes already under contract, such as the A400M or the Eurofighter remained a politically very delicate topic. Germany and Italy decided to re-sell the tranche 3b of the Eurofighter on the international market, begging the question of a coordinated approach to exports lest a downward bidding-spiral results. A similar situation arises with regard to excess A 400M ordered to bolster this European project.

One noteworthy trend in reactions to the financial pressures is the cuts in training made in many states,²³ which have gone hand in hand with an increased interest in using simulators for training, outsourcing training to private firms (Finland, but also Sweden) and most importantly in cooperating with European partners on joint training (Belgium) and on using training simulators multinationally (Germany, Austria).

International Engagement: no cuts but shifting priorities

Despite strong pressures on the defence budgets, almost no member state has to date opted for a precipitated withdrawal from ongoing military engagements, with the exception of Greece and Ireland. Some, like Portugal, opted for an even diminution of all military contributions. The Netherlands had to withdraw from Afghanistan due to domestic disagreements over the prolongation of the mandate in 2010 and less out of sheer economic reasons.

However, most member states did reduce the number of troops in certain missions and/or shift their weight across their multiple engagements. With no exception, these shifts occurred to the advantage of the ISAF-mission in Afghanistan.²⁴ The decision to withdraw troops was mostly made with regard to Kosovo and the Balkans, and was made in light of a reappraisal of the security situation. The UK is so far the only state that has explicitly lowered its level of ambition as a consequence of its Strategic Defence and Security Review in 2010.

Delayed consequences for the defence industry?²⁵

To date the European defence industrial base is not seriously affected by the crisis. However, this may change soon. Prime contractors either haven't been hit by the crisis or are recovering rather quickly. But the fiscal downturn may imply serious programme cuts, shrinkages or delays lying ahead for almost all EU member states. These are likely to impact on industry more seriously in the years ahead and result in stronger competition for contracts within a lower-demand environment and increased value-for-money imperatives.

Beyond the crisis, to the industry, the lacking consolidation of demand within the EU represents a major challenge: Firms are increasingly interested in consolidating their foothold in the US, or in developing cooperation with emergent countries. For global defence firms future markets are not found in Europe. Hence we see first shifts of production lines towards Asia and South America. Research and Development entities of European Firms may follow. Firms such as Rheinmetall or EADS-Cassidian also re-weighted their business models to abandon certain defence-related production lines to concentrate on civil security (e.g. border control, airport security).

²³ A-Countries (Italy, Spain), B-Countries (Greece, Netherlands, Portugal, Czech Republic), C-Countries (Lithuania).

²⁴ A-Countries (Italy, Poland, Spain); B-Countries (Bulgaria, Czech Republic); Slovakia and Hungary increased troop participation to ISAF without any reductions elsewhere.

²⁵ This section draws on Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, Restructuring Europe's Armed Forces in Times of Austerity, SWP-Working Paper No.8, November 2010.

Member states with significant defence industry have reacted quite differently so far – in line with their traditional approach to defence industrial policy. Cross national coordination has only taken place to some extent among France and the UK. The main objective is to consolidate or protect national assets.

The British defence industry is exposed to shrinking national demand. However a prime Contractor such as BAE Systems has developed a business model based on the diversification of the products and services it offers, which makes it less reliant on the UK customer base. This resulted from a substantial restructuring of the UK defence industry over the 1990s: By driving down costs and pursuing diversification into the dual-use and security sector, British industry has become highly competitive at home and abroad.

French defence exports have been stagnating since the beginning of the decade, despite growth in global demand. For the past three years, the French government has been trying to improve the French defence industry's export performance. Meanwhile, it seeks to find the necessary funds to maintain the production lines of the Rafale jet and to offset lacking export demand for the model. The government seeks to further the consolidation of certain segments of national champions, whilst pushing for the diversification of their activities in the wider sector of security (Thales and Sagem).

In Germany, economic data available on the reaction of individual defence firms like Rheinmetall, EADS, OHB and Diehl seems to paint a mitigated picture: Most firms are starting to show clear signs of recovery from the peak of the crisis in 2008-2009, partly due to recent government efforts to improve acquisition for ongoing deployments, and to dual-use and non-defence related activities. Both the national defence industry association and the labour union call on the government to help secure the national industrial basis (core capacities) through targeted national orders and through the shortening of administrative delays for exporting defence goods.

In Poland, an industry strategy was adopted by government prior to the crisis that involves further consolidation within the Bumar group, recapitalization as well as concentration on core business (e.g. track and wheeled armoured platforms, munitions, opto-electronics, radars). Yet, the 2009 defence cuts hit those firms severely, since they are almost entirely dependent on the Polish MOD procurements and exports being only a periodic source of revenue. Special financial instruments, mainly governmental guarantees and credits, were needed to save a couple of Bumar companies suddenly on the verge of bankruptcy. Nonetheless, Bumar progressively seeks to increase its export-revenues.

3.4 Existing and Emerging Geometries of Cooperation

Currently, defence cooperation undergoes a revival. Especially the rather long-existing cooperation forms of Pooling & Sharing receive renewed interest. This has to be seen on the one hand against long existing landscape of cooperation among EU countries, be it in bi- and multinational frames or linked to the EU. On the other hand, this existing and envisaged cooperation is still more the exception than the rule. Out of 1.6 million Soldiers in the EU only a few thousand are organized in formations like Eurocorps or EU-Battlegroups.²⁶

A lot of factors have to align for pooling and other forms of partnerships to succeed. Pan-EU cooperation will certainly remain the exception rather than the rule. What can be achieved, however, is to establish a link between cooperative geometries sharing similar motivations to foster a degree of coordination among efforts in order not to foreclose efforts that could benefit CSDP in the long run. Obstacles to and progress in integration or cooperation will vary from one cluster to the other. This fact calls for a differentiated analysis of the problems and opportunities inherent to every cluster.

²⁶ Tomas Valasek: Surviving austerity. The case for a new approach to EU military collaboration. CER-report, London 2011: 11

Characteristics of existing Pooling & Sharing initiatives²⁷

Analyzed existing examples for Pooling & Sharing show the wide spectrum of forms and areas of application international cooperation can take. What items and services can be subject to P&S and what has to be kept purely nationally varies greatly among member states. They typically build around user groups for equipment or specific capability shortfalls. While they build on existing patterns of cooperation among EU member states, the majority is not integrated in the EU framework, with the exception of EU-Battlegroups. Some of the larger P&S examples were developed within NATO context. This may indicate the need for strong political leadership. The majority of analysed Pooling & Sharing initiatives comprise five or less participants. While some of the cases exist since decades, their added value has been analysed scarcely.

Pooling & Sharing can improve the economies of scale of armed forces through international cooperation. It can take place in almost every phase of an equipment life cycle. The demand for a helicopter can be pooled, but also the acquisition and the maintenance. Similarly, areas related to armed forces especially in the domain of services like training or logistics can be subject to pooling and sharing. The methods to achieve pooling and sharing can vary. They can be combined to comprise for example outsourcing or pooling of demand for acquisition through joint biddings or tenders.

Pooling and sharing can be divided into four types:²⁸

- **Sharing of capabilities:** member states create common capabilities by providing national capabilities. There is no structure to organize their use. One example is the NATO air policing in the Baltic countries.
- **Pooling of capabilities:** Member states provide national capabilities. In addition, they set up a structure to organize the use of these national capabilities: the most concrete examples are the European Air Transport Command (EATC) and EU-Battlegroups.
- **Pooling through joint acquisition:** national capabilities do not exist or become redeemed by multilateral capabilities. A multilateral organization owns the assets. This is the case with NATO AWACS.
- **Role and task sharing:** certain capabilities or equipment are relinquished because another country will make them available. One example is the takeover of the Dutch Maritime Patrol Aircraft by the Bundeswehr.

A rough survey of about 70 cooperation programmes indicates that EU member states are involved in a number of Pooling and Sharing projects. They may allow drawing some initial lessons and conclusions. The sample shows that the scope for pooling and sharing so far covers a wide spectrum of military capabilities. Instead of a one size fits all solution several business models are developed among partners involved.

What can be subject to P&S and what has to be kept purely nationally varies greatly among member states. The two extremes can be described by non-recurring initiatives for training or logistic support at the lower end and pooled capabilities such as EU Battlegroups, the South Eastern Europe Brigade or the Belgian-Dutch F-16 Expeditionary wing at the high end of the spectrum. The latter two have been used for operations.

Besides a group of individually motivated initiatives, P&S initiatives show several characteristics: They are either "User Groups" based on common equipment or they respond to a specific capability shortfall, like AWACS, AGS, SALIS etc. and are mostly undertaken between Member States with pre-existing

²⁷ This chapter bases on a survey carried out by SWP as well as on briefings by EU-institution Officials under Chatham House Rule.

²⁸ Jean-Pierre Maulny, Fabio Liberti : Pooling of EU Member State assets in the implementation of ESDP. Study for the European Parliament's Subcommittee on Security and Defence, February 2008

patterns of cooperation. In particular there are clusters of regional co-operation. However only the EU-Battlegroups are an EU-unique development under the CSDP framework. Some of the larger P&S examples were developed within NATO context. This may indicate the need for strong political leadership. The P&S communities are often small groupings. Sixty percent of all projects consist of up to 5 participants. The most frequent grouping is bilateral co-operation - about 20% of all projects.

Benefits have been scarcely analysed to date.²⁹ Member States believe that these projects have delivered economies of scale. They have improved efficiency: capabilities being provided with fewer resources or certain capabilities only being retained through such collaboration. Last but not least they may have supported interoperability etc.

²⁹ Helpful insights can also be found in : Darnis, J-P et al , Lessons from European Defence Procurement Programmes, EU ISS, Occasional Paper 69, Paris, October 2007

Multinational Military Cooperation in Europe																										
Name	Germany	France	United Kingdom	Spain	Italy	Portugal	Greece	Poland	Czech Republic	Slovakia	Hungary	Austria	Norway	Finland	Estonia	Bulgaria	Latvia	Lithuania	Luxembourg	Netherlands	Belgium	Romania	Slovenia	Cyprus	Turkey	Area
NLSE: NATO Logistic Stock Exchange	X	X	X	X	X	X	X	X	X	X	X	X	X	X						X	X				X	Maintenance, Supply & Logistics
Euro-NATO Joint Jet Pilot Training	X	X	X	X	X	X	X					X								X	X				X	Training & Education
TLP: Tactical Leadership Programme	X	X	X	X	X					X										X	X					Training & Education
MCCE: movement Coordination Center Europe	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	Transport
RDCs: The Rapid Deployable Corps	X	X	X	X	X	X	X	X								X						X	X		X	Operational Capability & Command
Alliance Ground Surveillance	X				X			X	X	X	X			X	X	X	X	X				X	X	X		Surveillance & information
NATO SEASPARROW Surface Missile System	X			X	X	X				X	X								X	X					X	Operational Capability & Command
Strategic Airlift Capability							X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		Maintenance, Supply & Logistics
Strategic Airlift Interim Solution (SALIS)	X	X	X			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		Maintenance, Supply & Logistics
AWACS	X	X		X	X	X	X	X			X		X						X	X	X				X	Operational Capability & Command
ATARES: Air transport and Air to Air Refueling Exchange of Services	X	X	X	X	X		X		X	X		X								X	X					Transport
Joint CBRN Defence Centre of Excellence	X		X		X	X		X														X	X	X		Training & Education
EATC: European Air Transport Command	X	X																	X	X						Transport
MLCC: Multinational Logistics Coordination Center			X			X	X					X														Maintenance, Supply & Logistics
EATF: European Air Transport Fleet	X	X		X	X	X	X	X	X				X						X	X	X	X	X			Transport
Helios		X		X	X	X														X						Surveillance & information
Helios2 / COSMO		X		X																						Surveillance & information
Helios2 / SAR	X	X																								Surveillance & information
MSSC: Multinational Sealift Coordination Centre				X	X	X	X	X				X										X	X	X	X	Maintenance, Supply & Logistics
EU FHQ: Force Head Quarters	X	X		X																						Operational Capability & Command
EUROFOR	X		X	X	X																					Operational Capability & Command
SEEB: South Eastern Europe Brigade				X	X										X							X				Operational Capability & Command
EU Battlegroups	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	Operational Capability & Command
SIAF: Spanish-Italian Amphibious Force			X	X	X	X																				Operational Capability & Command
EURMARFOR: European Maritime Force	X		X	X	X																					Operational Capability & Command
AWTI: Air Weapons Trainings Installation	X			X																						Training & Education
HQJ Corps	X	X	X	X	X	X			X	X	X									X	X					Operational Capability & Command
UK-NL Amphibious Force			X																	X						Operational Capability & Command
BENSAM: Belgium-Netherlands Naval Cooperation																				X	X					Training Education, Control & Command, Logistik
NLSP: The Naval Logistics Support Partnership			X	X	X	X	X				X									X					X	Maintenance, Supply & Logistics
MarSur: Maritime Surveillance Network	X	X	X	X				X			X															Surveillance & information
MLF: Multinational Land Force			X									X												X		Operational Capability & Command
Sea Surveillance Co-operation Finland-Sweden								X				X														Control & Command, information
ARCHER: Common acquisition of artillery system								X				X														Armaments
BALTRON: The Baltic Naval Squadron														X	X	X										Operational Capability & Command
Baltic Defence College:														X	X	X										Training & Education
Cooperation between BE and NL Navy																				X	X					Operational Capability & Command
Cooperation between BE and FR on Pilot training	X																				X					Training & Education
F 16 Expeditionary Air Wing					X				X	X									X	X	X					Operational Capability & Command
Rolls Royce Spey Gas Turbine			X		X															X	X					Armaments
multi-purpose frigates M class					X															X	X					Operational Capability & Command
Tripartite Minehunters	X																			X	X					Operational Capability & Command
Pandor User Group					X		X		X											X			X			Maintenance, Supply & Logistics
Dingo User Group	X						X			X									X	X						Maintenance, Supply & Logistics
HELIDAX Helicopter Training	X																			X						Training & Education
Multinational Sealift Steering Committee	X	X			X				X	X	X					X	X							X		Maintenance, Supply & Logistics
MCG Multinational Civilian Military Cooperation Group				X	X	X					X											X				Operational Capability & Command
Naval Helicopter NH 90	X	X		X	X														X	X						Maintenance, Supply & Logistics + Armaments
HERCULES C-130J Joint User Group			X	X					X	X																Maintenance, Supply & Logistics
C27J Spartan Group				X	X										X	X							X			Maintenance, Supply & Logistics
Gripen User Group								X	X		X															Maintenance, Supply & Logistics
Common use Item System	X	X	X	X	X	X			X	X	X									X	X					Maintenance, Supply & Logistics
Harpoon Joint Executive Committee	X				X	X			X											X						Maintenance, Supply & Logistics
MK 46 Torpedo Weapon System Partnership			X	X	X																					Maintenance, Supply & Logistics
French Portuguese Cooperation on Maritime Surveillance	X				X																					Surveillance & information
Spanish Portuguese Coop on Maritime Surveillance			X		X																					Surveillance & information
Greek Portuguese Naval Coop				X	X																					Surveillance & information
Oto Melara Compact Gun Group	X		X	X	X			X	X	X		X							X	X					X	Maintenance, Supply & Logistics
HTTP Helicopter Training Programme			X					X	X	X	X								X						X	Training & Education
Exchange of classified Information								X	X	X	X															Surveillance & information
Storage of special Artillery munitions								X			X															Maintenance, Supply & Logistics
MCM Capability								X	X	X	X															Operational Capability & Command
Multi Purpose Gun								X			X															Armaments
Baltic Naval Training Centres														X	X	X										Training & Education
Baltic Air Surveillance Network and Control System														X	X	X										Surveillance & information
Surface to Surface Missile	X					X	X				X															Armaments
EDA joint investment programme	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	Armaments

Source: SWP-own survey

Characteristics of Emerging Clusters of Cooperation

The financial crisis has certainly boosted negotiations and initiatives for more international cooperation. Assessing the eight most prominent initiatives, EU member states can be divided into three groups according to their attitude towards this revival of cooperation initiatives: *Activists* are actively looking for cooperation options or leading efforts in this domain: France, Germany, Poland, Netherlands and Sweden. Belgium, Finland, Greece, Hungary and Bulgaria. *The Undecided* have an ambiguous stance regarding closer defence cooperation within the EU. They may favour e.g. the NATO framework or bilateral formats (French-British Agreement): the UK, Denmark, Italy, Spain, Portugal and Romania. *The Specialists* are a number of smaller states constrained by the proportionate burden a military imposes on a small national economy, interested in developing niche capabilities that would ultimately lead to some form of role specialization amongst the militarily smaller states in the EU.

However, entirely new initiatives, inspired by the financial crisis are only the Ghent Initiative and the Nordic pact. Often, current re-energizing builds on established relations at highest political levels or pre-existing cooperative frameworks, or both. These vary significantly regarding membership, objectives, stages of preparation and output. Moreover, not only multilateral but also bilateral cooperation became revisited, with the Franco-British pact being the most prominent example.

Hence, a complex framework of overlapping cooperation clusters currently unfolds. While their necessary mix for success is difficult to define some variables play an enabling role for these cooperations: regional proximity and similar geographic size; moreover strategic culture and pre-existing political cooperation but also palpable political interests have to align; defence industrial relations are likely to be supportive if they are asymmetrical, i.e. diverging industrial landscape that will not suffer from a cooperation induced rationalisation in the industrial sector.

Recently a debate about new bi- and multilateral cooperation in the area of defence has surfaced. We can identify eight different initiatives. These vary with regard to memberships, objectives and output.

It can be argued that the financial crisis has speed up negotiations and initiatives. However, entirely new initiatives, inspired by the financial crisis are only the Ghent Initiative and the Nordic pact. Especially the Franco-British pact builds upon a long history of joint plans for more cooperation in the area of defence. The current treaty has been prepared through long established relations at highest political levels. This pattern can be observed with respect to the other pre-existing cooperative frameworks: The Nordic Defence Cooperation framework, the Visegrad Four, the Weimar Triangle or the South Eastern Europe Defence Ministerial Process (SEDM) are being revisited with the aim to identify opportunities for joint savings.

The depth of cooperation varies greatly from region to region. Whilst NORDEFECO seems intent on working with concrete pooling and sharing options, efforts in the realm of the Visegrad Four or the SEDM remain only at preliminary stages. Cooperation within the NORDEFECO framework so far is the most elaborate cooperation effort integrating both capability planning and industrial aspects. Considering its already established links with the Baltic States and the interest manifested by Germany, the UK and Poland, it offers fertile ground for immediate pragmatic cooperative endeavours in pooling and sharing.

In addition to these multilateral efforts, a number of bilateral cooperation efforts by single states further blur the picture. A regional cluster such as NORDEFECO attracts and invites cooperation interest from Germany, Poland or the UK. The Baltic states are engaged in closer cooperative efforts with NORDEFECO, whilst they also engage in bilateral joint procurement agreements with Poland and Germany; Finland and Estonia entertain historically rooted close bilateral defence cooperation in joint procurement; Bulgaria expressed an interest in joining efforts with Romania on maintenance, crew training and air policing. Belgium and Luxemburg have in turn shown interest in cooperating with Germany and the Netherlands.

The cooperation maps thus emerging divides the EU into at least five interlinked cooperative clusters: The Nordic-Baltic cluster, the Leadership cluster (F-UK), the East-West cluster (Weimar Triangle), a 'New Europe' cluster (Visegrad Four) as well as a South-Eastern European cluster. Each tries to reach out to non-EU members in the immediate neighbourhood (Serbia, Bosnia etc.).

These regional cooperative clusters mostly aggregate because they are of similar size and/or share strategic cultures: The best examples are France and the UK that share similar defence political ambitions at international level due to their respective past as former Empire, or the shared historical past shared by the Scandinavian countries, Finland and the Baltic states.

Moreover, there has to be a palpable similar interest among the countries aggregating. The very visible impetus behind the French-British cooperation agreement or NORDEFECO arguably is to achieve savings. The formats with less concrete results and more political goals such as the Weimar Triangle, the Franco-German cooperation or the SEDM, seem to be pursuing more political goals such as furthering European integration or binding non-EU countries within a cooperative framework.

(Defence) industrial relations among cooperation partners also play a crucial role: Losses incurred as a result of reduced orders due to joint procurement implies the necessity for industrial losses to be evenly spread out across partners. In the long run, this fact potentially hampering cooperation begs the question of a European strategic defence industrial policy (see below).

A number of states have shown a novel or strengthened interest in the wake of the crisis for intensified cooperation in pooling and sharing capabilities or in using more intensively joint procurement opportunities where shared needs are evident. With regard to the interest shown for recent, crisis-induced initiatives such as the Ghent Process, EU member states can be divided into three groups according to their attitude:

- **Activists:** France, Germany, Poland Netherlands and Sweden are actively looking for cooperation options or leading efforts in this domain. Belgium, Finland, Greece, Hungary are following cooperative efforts or have declared a clear interest in pooling and sharing. Others, such as the Czech Republic (in favour of pooling air policing capabilities within NATO) or Bulgaria are beginning to show timid signs of interest.
- **Undecided:** The UK and Denmark have an ambiguous stance regarding closer defence cooperation within the EU, as they tend to favour cooperation through NATO or in a regional (NORDEFECO), if not bilateral format (French-British Agreement). Also states such as Italy, Spain, Portugal or Romania show limited interest and little engagement on the issue of pooling and sharing or role specialization.
- **Specialists:** A number of smaller states constrained by the proportionate burden a military impose on a small national economy—mostly small and medium sized countries—are interested in developing niche capabilities that would ultimately lead to some form of role specialization amongst the militarily smaller states in the EU.

A The Franco-British Defence pact: cooperation among military lead countries

France and the United Kingdom have clearly opted in favour of a bilateral approach out of frustration with the intricacies of multilateral co-operation inside the EU. In the Declaration on Defence and Security Co-operation during the UK-France Summit on 2 November 2010, London and Paris identified a series of fields for deepening bilateral co-operation and sharing common defence equipment. London and Paris agreed to co-operate on nuclear testing. They also agreed to pool logistics and training for the A400M. France will use spare UK air-tanker capabilities, Research and technology co-operation will be continued with a joint annual budget of €100m. One essential caveat in the negotiations about pooling and sharing, however, is France's priority to secure its own political capacity to act. It is currently inconceivable to the French government to rely on the military capability of other states without a guarantee that those would be available to France to pursue priorities in national security policy

including French military operations abroad. This is why France has in the past months been engaging in a dialogue with a state such as the UK that shares a similar security culture.

B Nordic Defence Cooperation (NORDEFECO) much cooperation less output

Sweden, Denmark, Finland and Norway signed the Nordic Defence Cooperation (NORDEFECO) Memorandum of Understanding in 2009 in a bid to expand military and industrial cooperation in the region. The NORDEFECO MoU merges three cooperative frameworks previously in existence. *Nordac* (1994) was a framework to allow for closer cooperation on acquisition. *Nordcaps* (1997) was a framework within which Nordic and Scandinavian countries were organizing peace support education and training for joint military peace support. *Nordsup* (2008) launched an effort to identify around 140 areas where cooperation among Nordic and Scandinavian states is possible to retain defence capabilities.³⁰ However palpable output has not been seen so far.

C From overlapping clusters of Nordic Cooperation into Nordic-Baltic defence pact?

The Nordic countries already made positive experiences with pooling and sharing in the fields of common transports and common logistics.³¹ Nordic cooperation has long-term objectives, including common weapons procurements and more commonality in military operations and equipment. Some key-cooperation projects include: the EU's Nordic Battlegroup; joint development of the Sea Surveillance Cooperation Baltic Sea project; and the feasibility of improving the Nordic defence industry's capability through common weapon programs. Through joint training and exercising, the declared intention of participant nations has been to create the platforms needed to support a higher level of cooperation.³² In January 2010 an agreement among the air forces of Finland, Norway and Sweden was signed to increase the number of joint exercises in 2010 and strengthen the foundation for multinational fighter squadrons for regional air-policing duties. The agreement built on the Cross-Border Training Agreement from 2009, which promoted two-nation exercises. Sweden has also proposed putting helicopters or other military assets at the disposal of Danish, Norwegian, or Finnish crews for international missions.³³

The Nordic Defence cooperation effort is not designed to remain a closed shop, as cooperation talks have already been extended to the Baltic States and mutual interest in expanding cooperation with the UK, Germany and Poland has become evident.³⁴

A proposal to set up a shared surveillance effort over the North Sea is seen as attracting broad Nordic support.³⁵ Finland is hesitating over a proposal backed by Denmark, Norway and Sweden to conduct fighter jet patrols over NATO-aligned Iceland. It cites its own neutrality as well as the sizable commitment of planes and money as obstacle for a commitment.³⁶

Finland decided to work more closely with Estonia on its € 750 million National Air Defence Modernisation Plan (NADMP) until its scheduled completion in 2015. Finland's traditional support of defence system development within the Baltic States is largely concentrated on Estonia, with more modest support to the defences of Latvia and Lithuania.³⁷ Estonia is keen on identifying value-added, pragmatically implementable solutions for pooling and sharing.

On 15th December 2010, Estonia and the UK concluded a framework agreement on joint acquisition of defence equipment, opening the road for information-sharing on defence, arms or munitions

³⁰ Nordic Cooperation—History and Background, www.nordefco.org, 23.03.2011.

³¹ Gerard O'Dwyer, 'Nordic Countries to Pledge Common Defense', *Defense News*, 22.11.2010.

³² Gerard O'Dwyer, 'Five Nordic nations boost air-defense cooperation', *Defense News*, 15.02.2010.

³³ Gerard O'Dwyer, 'Nordic Meeting Shows Progress – and Limits – of Defence Cooperation', *Defense News*, 18.05.2009.

³⁴ Gerard O'Dwyer, 'Nordic Countries to Pledge Common Defense', *Defense News*, 22.11.2010.

³⁵ Ibid.

³⁶ Ibid.

³⁷ Gerard O'Dwyer, 'Finland, Estonia join forces on defense modernization', *Defense News*, 05.10.2009.

acquisitions planned or contemplated. Estonia signed similar agreements with Sweden and Germany.³⁸ Lithuania has stepped up its consultations with its Baltic neighbours and Poland in an effort to harmonize procurement processes to pool resources for joint procurements in order to economize and drive down operating costs.

D Closer Defence Cooperation in the Realm of the South Eastern Europe Defence Ministerial Meeting?

Pooling and sharing are issues currently being debated in Bulgaria, yet the time is not yet politically ripe to implement significant cooperation project. Improving the political relations to Bulgaria's neighbours in the Balkan/ South-eastern Europe is considered an absolute priority. The aim is to become an essential ally, if not a military lead-nation in the region.

During the Bulgarian chairmanship of the first meeting of the South-Eastern Europe Defence Ministerial (SEDM) Process (2009-2011)³⁹ in October 2009, the Bulgarian Defence Minister Mladenov identified the financial crisis and economic stagnation as factors that should be taken into account upon formulating the future forms of cooperation, to "invest not only in national but also in joint efforts to achieve higher efficiency."⁴⁰ Mladenov stressed the need to fully utilize the potential of the South Eastern Europe Brigade (SEEBRIG), and to analyze which type of missions the Brigade should fulfil in the future.⁴¹ Cooperation talks have also been taking place with Serbia and Romania. With Serbia, Bulgaria is discussing military exchanges, joint military exercises and industrial cooperation as part of a military *rapprochement*.⁴²

With Romania, Bulgaria is considering closer cooperation in the area of maintenance, crew training and air policing, given that both countries will equip themselves with the same multi-role aircraft.⁴³ Concluding the reforms of the armed forces is considered a priority and concrete pooling and sharing may then resurface on the political agenda after 2014. Accordingly, the Ghent-Process is being acknowledged in Bulgaria but does not come center-stage in domestic debates. Bulgaria to date prefers to concentrate on bilateral relations to the US, which still invests substantial amounts into the Bulgarian armed forces.

Greece is currently considering options for pooling and sharing redundant capabilities at EU level. Decisions are to be expected in the first half of 2011. Beyond the creation of the Franco-Italian Brigade in Spring 2010 and the hope to strengthen national defence industry through European armaments cooperation, Rome has not yet signaled particular interest in furthering European cooperation out of financial motivations. Slovenia engages in closer defence cooperation with Serbia, Croatia, Macedonia and Austria yet cooperation does not go as far as pooling and sharing.

E Closer Defence Cooperation Among the Visegrad Four?

Although discussions still stand at the outset, pooling and sharing are options currently being discussed with much intensity in the Czech Republic. Especially closer cooperation with the Visegrad Four (Poland, Czech Republic, Slovakia, Hungary) is considered to be an interesting option. However, doubts remain with regard to an equitable burden-sharing among the four. Cooperation with Slovakia seems here most likely and promising, since the armed forces of both states already closely work together. On the background of the debate about prolonging the leasing of Gripen-fighter jets, Prime Minister Necase

³⁸ *European Diplomacy and Defense* No.377, 21.12.2010, p.2.

³⁹ Participants to the SEDM are Bosnia and Herzegovina, Bulgaria, Greece, Italy, Macedonia, Romania, Slovenia, Turkey and Ukraine. Observer Nations are Montenegro, Georgia, Moldova and Serbia.

⁴⁰ 'Southeast European defence ministers meet in Bulgaria', *BBC*, 21.10.2009.

⁴¹ *Ibid.*; 'Bulgaria hosts southeast Europe defence meeting on security, cooperation', *BBC*, 14.09.2010.

⁴² 'Bulgarian, Serbian defence ministers discuss joint exercises, cooperation', *BBC*, 14.12.2010.

⁴³ 'Romanian, Bulgarian defence ministers discuss defence relations', *BBC*, 02.06.2010.

has been advocating for a while the sharing of planes with other NATO member countries, inspired by the example of the Netherlands and Belgium, which are building up a joint Navy.⁴⁴

In late November 2010, the Hungarian Ministry of Defence expressed strong interest in cooperation with Slovakia to train Mi17-helicopter pilots. Hungarian pilots could train on a special flight simulator in Presov (Slovakia) while Slovak pilots may gain experience at the Hungarian air base in Szolnok. Cooperation between Slovakia and Hungary is already ongoing with regard to pyrotechnics and bomb disposal.⁴⁵ In May and June 2009 talks were also held on Hungarian-Greek and on Hungarian-Macedonian cooperation concerning military training.⁴⁶ A paper from late 2010 confirms the need for specialization of the Hungarian army including the development of niche capabilities such as NBC defence,⁴⁷ instead of maintaining the ambition of a full spectrum force. Cooperative divisions of labour with small nations, such as Austria, Slovakia, Finland or Belgium similarly affected by the crisis are listed as policy priority.⁴⁸ Hungary has put the furtherance of pooling and sharing as priority onto the agenda of its EU Presidency in 2011 and intends to strengthen the Ghent-Process.

F The Weimar Triangle Political initiative with concrete objectives

The Weimar initiative to CSDP by France, Germany and Poland aims to strengthen CSDP capabilities through increased multilateralization and pooling of forces in three precise areas: Battlegroups, capability short falls and command & control. Multilateral headquarters.⁴⁹ The initiative shows its distinct political spirit as it picks up upon the history of consultative meetings, aiming to support EU integration by leading EU member states from the East to the West of Europe.

The initiative has been Europeanized by the High Representative in January 2011 through its reply to the letter of the Weimar Triangle ministers of foreign affairs and of defence. It will be taken forward on the EU/EAD level.

On the issue of pooling and sharing, Warsaw has been engaged in a close dialog with Berlin and Paris as part of the Weimar Triangle since 2010. Poland, Germany and France sent a letter to the EU High Representative Lady Ashton in mid-December calling for the improvement of capacities to plan and to conduct operations and missions, to strengthen cooperation among their militaries and to create synergies in times of scarce resources, taking due care for complementarities with national and NATO planning capacities. Germany, France and Poland will enhance their cooperation within the Battlegroup, which they are to provide in the first half of 2013. Moreover Germany will provide the installations for a multilaterized EU Force Headquarters.

G Franco-German Defence Cooperation –currently nothing in common?

Building on the long standing bilateral defence council, Paris has engaged Germany on the issue of pooling capabilities over the past months through different structures: The Franco-German Ministerial Council, the Franco-German Defence and Security Council (with its working groups on capabilities, strategy and operations, and sub-working groups on different armed services and armaments policy) and finally the ad-hoc working group launched by both Defence Ministers in mid-2010 tasked to identify specific projects for further cooperation. However, the process has not delivered results so far.

⁴⁴ 'Experts suggest Czechs save on fighter plane costs, cooperate with NATO allies', *BBC*, 02.07.2010.

⁴⁵ 'Hungarian army interested in Slovak flight simulator, more cooperation', *BBC*, 01.12.2010.

⁴⁶ 'Hungary, Greece army chiefs discuss military cooperation', *MTI-EcoNews*, 18.06.2009. 'Macedonia, Hungary sign military cooperation agreement', *Xinhua News Agency*, 07.05.2009.

⁴⁷ Bastian Giegerich, *European Military Capabilities*, IISS, 2008, p. 50.

⁴⁸ Nicolas Gros-Verheyde, *Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir*, <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

⁴⁹ Gabriela Baczyńska, 'France, Germany, Poland urge closer EU defence ties', *Reuters News*, 13.12.2010; . Claudia Major: A Civil-Military Headquarters for the EU. The Weimar Triangle Initiative Fuels the Current Debate. SWP Comments 2010/C 31, December 2010.

H The Ghent Process – towards a European Strategic defence review?

In early December 2010, Germany and Sweden confirmed they would seek to start a process in which EU member states sought to undertake more joint responsibility for military matters.⁵⁰ Both states are at the origin of the *Ghent Initiative*, which aims to assess options for pooling and sharing. The initiative has been welcomed by the European Council in December 2010 and is thus 'Europeanized'. During the next six months CSDP member states will analyze their national capabilities along three criteria: (1) as to what extent and by what measures the interoperability of those capabilities that have to remain under national control could be increased; (2) which capabilities allow options for pooling; (3) which capabilities and support structure offer potentials for role specialization and task-sharing through intensified cooperation.⁵¹ In the first half of 2011 the results of the analysis will be presented to the High Representative Lady Ashton.

4 TOWARDS AN EFFECTIVE EU DEFENCE SECTOR STRATEGY IN TIMES OF AUSTERITY

The financial crisis has put the public budgets throughout the European Union under severe pressure. After massive debt-financed recovery programmes the states now seek fiscal consolidation by reducing all public spending in a long-term perspective. The times of austerity may last for up to two decades, depending i.a. on the fiscal discipline member states show in the consolidation of public spending. Consequently, the consolidation process will have to aim beyond short-term cuts to seek structural spending reforms designed to have an effect in the medium term.

The impact of the budget crisis on the defence sector is to some extent until today a matter of political priorities. However, especially for the small and medium sized countries, it has become costly reality which they cannot escape. But it is obviously only a matter of time until the increasing pressure of public debt services may include the defence sector into those areas that have to contribute to fiscal consolidation. It is questionable whether the required savings can be achieved by simply cutting down the existing national structures and forces.⁵² The current revitalisation of existing cooperation frames as well as the new initiatives, especially the Ghent initiative, can be interpreted as signs that this has been understood by EU member states.

While some observers consider the situation as a chance to deepen EU-Integration in the military realm, current activities of member states still point in the opposite direction. States tend to plan and implement their cuts at the national level, without much coordination or even communication at the EU level about who is cutting what. The national reflex remains strong and creates the risk of a growing capability gap if member states continue to diminishing capabilities in an uncoordinated manner. Uncoordinated savings will most likely also impact with some delay on the European technological and defence industrial base.

4.1 A European Imperative - The why and how of future EU Capability development

Why should Europe keep on trying to enhance its military actorness? The EU's current political state may well limit the appetite for more initiatives towards cooperation. However, three arguments clarify that an EU as a capable military actor is more a question of necessary responsibility of the governments vis-à-vis their populations rather than a question of choice and taste.

First, the US will in future be less available for EU requests for help. The United states have for a long time not only backed but considerably enabled Europe. But the US will be increasingly bound in Asia. It

⁵⁰ Dave Graham, 'Germany plans to boost military cooperation', *Reuters News*, 09.12.2010.

⁵¹ Council conclusions on Military Capability Development. 3055th Foreign Affairs (Defence) Council meeting Brussels, 9 December 2010. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/esdp/118348.pdf

⁵² Christian Mölling, Sophie-Charlotte Brune, and Marcel Dickow, *Finanzkrise und Verteidigungskooperation. Materialien zu acht europäischen Ländern und den USA*, Berlin, Stiftung Wissenschaft und Politik, 2010. (SWP-Arbeitspapier, FG3 AP4, October 2010)

has already made clear that it does not any longer perceive a more integrated EU-defence posture as a threat to NATO. Instead it acknowledges the positive effects such an EU pillar could have for NATO. Hence the EU will have to take over more responsibility in international crisis management. However, the individual states are less and less able to shape security unilaterally. This is a strong argument for cooperation. Besides a strategic reorientation driven by changing risk perceptions, even the US will have to manage their defence posture with less budgets. Defence minister Gates made clear that the current level of over sea presence on the European continent may need to be reduced.

A second argument for more cooperation is sovereignty. Currently sovereignty is the core issue that hinders deeper cooperation. However sovereignty, understood as capacity to act, is also the biggest argument for cooperation: How capable are the individual member states? What are Germany, Italy, Sweden or even France and the UK able to achieve individually in the military realm? And what is necessary in the light of real world risks and responsibilities in EU and NATO? As the answer increasingly tends to be negative, cooperation is the only way EU-states can keep or regain the sovereignty they already lost during the last years. The effects of the financial crisis reinforce this tendency. Other elements, as the demographic development, suggest that this trend will not change in the foreseeable future. Sovereignty hence means having the capacity to act, and this capacity depends to a great extent on collective efforts and intensified cooperation at the EU level.

Third, future crises will be more civilian but not always non-violent. The EU offers the necessary comprehensive toolbox to engage with these future types of conflict. While preventive structural policies have to play a major role, the option to resort to military force as part of a political strategy cannot be ruled out.

4.2 A comprehensive political approach: Elements of a defence sector strategy

Europe needs a defence sector strategy as comprehensive answer to its major problems. Using the current situation as a turning point for more effective and efficient EU capability generation Europe needs a defence sector strategy as comprehensive answer to its major problems outlined above: The conceptual, institutional and material linkage between armaments phase and the capability development phase as well as increased performance in each phase.

To ensure that CSDP gets reenergized, the challenge is to combine the following ingredients into an approach that goes beyond the current incremental one:

- opportunities offered by Lisbon Treaty, EDA and Commission
- the necessities of the economic crisis, especially by adapting the capability generation framework to the realities of austerity
- initiatives by the various EU countries as well as lessons learned from existing cooperation the less and the into an effective defence sector strategy

Europe's problems and challenges are interlinked among the areas of capability development and armaments. Hence, the solution has to reflect this interaction. This implies also to tackle the different dimensions: security, technology, economy and the industry-related one.

Moreover, the EU has to manage the interacting challenges posed by the financial crisis and the characteristics of its capability generation framework. Especially the institutions and provisions that could increase coherence among the capability generation phases exist already: the provisions of the Lisbon Treaty and the EDA. Both offer institutional answers to the challenges among as well as within the two capability generation phases. Here, the challenge is their implementation. Conceptually, capability development and armaments must be adapted to crisis-induced new realities. It would mean to give priority to the security function of armed forces, to balance it against necessary technological and industrial functions. Moreover domestic issues like jobs and local taxes would have to be subordinated. This implies to expand common concepts and objectives such as headline goals from the

military to the industrial and technological domains. This has to be followed by an effective link of existing resource pools to these concepts and mechanisms.

Hence this paper proposes a more comprehensive approach to the defence sector. Tackling the problems would comprise solutions for Elements of a defence sector strategy – overcoming the currently isolated approach to the various problems. These recommendations concentrate on the shape of an effective EU defence sector strategy in times of austerity (linking especially the industrial and capability dimension), the necessary steps to introduce and implement it in practice and the options of the European Parliament to support and push the member states for such a coherent and comprehensive approach.

4.3 Conceptual Link: An EU Strategic Defence and Security Review

A dialogue is needed across islands of cooperation just identified with a view to guarantee that ongoing reforms are engaged in a way that is not harmful to the CSDP in the long run. A European-level SDSR would be a first step to review how member states efforts to meet the demands imposed on them by the financial crisis and the effect of cuts in military expenditures will influence their capabilities within the EU and NATO. Further, it would allow identifying capability improvements specific to each nation and facilitating setting a target for their cooperative or collective use.

In light of the disparate picture of cooperative efforts emerging, a European-level Strategic Defence and Security Review (SDSR) would be a first step to review how planned national cuts will influence joint capabilities within the EU and NATO. An SDSR would eschew the definition of political principles usually found in White Papers to adopt a bottom-up approach intent on identifying what concrete options are on the table to make the most of existing military capabilities across the EU to achieve political goals EU member states defined in the European Security Strategy of 2003.

It would allow drawing up a profile of each member state's capability strengths and weakness in order to identify areas in which pooling and sharing would make particular sense. A European SDSR would also help identify for which countries it makes sense to maintain full-spectrum forces and those states for which it economically and politically makes sense to focus on role-specialisation, niche capabilities. States should thus take a coordinated approach to cuts where it is adequate and harmonize them in a way that they do not undermine their overall capability in a given domain.

An important guideline in this endeavour ought to be the European Council's efforts in reorienting capability development at European level, initiated in 2008 via the "Declaration on Strengthening Capabilities". The benchmark outlined in this document could serve as a guide for coordinating national reform efforts/ cuts as well as cooperative clusters.

Engaging in such an effort makes particular sense at the present moment, since a number of states are currently drawing up national Strategic Security and Defence Reviews and drafting White Papers to come out in the course of 2011. These states are Poland, Bulgaria, the Netherlands and the Czech Republic, whilst Slovenia and the UK finished their most recent Review in 2010.

A European SDSR would make particular sense as follow-up to the current Ghent-Process, in which an enhanced role as facilitator could accrue to the EDA.

Ideally, the coherent and systematic pooling of capabilities at the European level would require a shared model of capabilities, including the possibility of having a European budget planning process for joint capabilities. In light of lacking wide-scale political backing to date for such a degree of European integration, intergovernmental models involving increased sharing and pooling of capabilities as well as some moderate form of role specialisation are more likely to succeed for the time being.

Of course they do imply a new understanding of sovereignty based on the insight that the ability of 27 small armies to deploy will never equal the ability and weight of a coordinated European approach. Such approach also entails greater creativity in working out solutions to guarantee access to capabilities

and interoperability in use and logistics. To that end, enhancing cooperation in low-key areas such as maintenance, training and education may offer a feasible start to level the way for more in-depth cooperation in capabilities.

Beyond this effort to pave the way for long-run integration, more concrete cooperative options are on the table already now. Looking into concrete cases where sharing and pooling could help foster joint capabilities at European level is a promising endeavour to provide some food for thought on options to bring about much needed savings and, in particular, more rationality and value for money in the € 200 bn. business of European defence. Examples may be found in the following sections.

4.4 Institutional link

Using the full potential of the European Defence Agency

First, the member states should entrust EDA as a driver and framework for developing pooling and sharing projects. The Agency can serve as a forum in which the member states develop a common understanding of multinational projects as complement to the national ones. This would be the pre-condition for Pooling and Sharing initiatives in various areas, such as equipment or logistics. Member states can build on the current EDA initiatives on the area established last year. Through this, EDA has once more demonstrated its timely engagement and utility to member states needs.

Second, the EDA should serve as central certification authority for military capabilities, particularly the Battlegroups. It would rebut criticism about lacking quality and deployability while also assuring constant quality and allowing for reliable planning.

Third, in view of the expected civil-military scenarios in crisis management, the member states should consider opening the agency for civilian aspects in view of creating civil-military synergies. In such a perspective, the EDA could for example support the development of joint civil-military transport arrangements. The same applies to future initiatives for pooling and sharing.

Finally, to integrate the economic dimension and to give a new *élan* to the original purpose of the agency, namely to allow member states to get more "bang for a euro", finance ministers should play a stronger role in the EDA. This would be especially important as defence ministries tend to think much more in national terms and are sometimes less aware of the price tag attached to one or the other solution. Ministers of finance may participate in joint sessions at EDA with their MoD colleagues. They could also meet as a defence budget group. Such a group would be timely, given the upcoming defence budgetary challenges. The decision to set up such a group should be taken by heads of state and government, underlining that defence is a whole of government issue.

Establishing Permanent Structured Cooperation through successful P&S practice

For the moment, EU member states should stop theological debates on PSCoop. Instead they should engage in concrete pooling initiatives that could become militarily effective, financially attractive and sustainable solutions. PSCoop should be seen as a self-establishing principle if pooling initiatives are successful for a longer time. Questions similar to those in PSCoop may surface but with a concrete point of reference, enabling debates related to empirical substance. To ease the kick off of such a bottom up PSCoop, it can be based on existing projects and co-operation, especially in those areas with serious capability shortfalls. One first step could be to intensify the coordinated use of existing national capabilities (pooling). The option of making the Eurofighter the heart of an autonomous European air policing capability under PSCoop should be weighed up. A very suitable example at hand could be the European Air Transport Fleet (EATF). PSCoop would here mean a more coordinated use of already existing or planned national capabilities. The EATF states would share the operation and maintenance of the airplanes and the training of crews. A leading and coordinating role could be played by the European Air Transport Command. This would draw on existing equipment. Demand for pooling also exists in the area of unmanned aircraft (UAVs) and transport helicopters.

However, in the longer run it will become essential to consider very much further-reaching European cooperation models, also in order to cut national costs. PSCoop should offer those EU member states that already contribute to defence efforts at a relatively high level tools for working even more closely together to expand their military capabilities. Hence, beyond such a bottom up approach to PSCoop, those member states willing and able to advance quicker and effectively in the development of capabilities, should engage in debates on how to use PSCoop as an enabling tool for them.

4.5 Linking Resources

Pooling R&T Funds

As the most flexible expenses, investments in Research and Technology (R&T) are imminently threatened by cuts across the EU. First announcements of these have already been made by Italy, Spain and France. In order to limit the impact of defence investment cuts on the overall defence capabilities of the EU, pooling R&T funds seem to offer the best solution.

The reason why more money should not be put into one pot for R&T in areas that are equally relevant for most European major military powers remains scant. Priority areas are on the one hand satellite communications, unmanned systems, naval systems and complex weapons. R&T in these areas is time critical. On the other hand sensors, electronic warfare technologies and materials, as well as simulation may be considered, as they represent areas of critical industrial importance.

Joint Investment and Procurement

Besides pooling R&T funds, common investment and procurement programmes are an option to consolidate demand. Existing programmes, e.g. the A400M or the Eurofighter, can be assessed only as a limited success. Although they deliver the equipment needed, they also show a magnitude of organizational and technical problems, stemming from the political, not economic, character of the primary impulse for cooperation. Thus, the willingness of the EU states to establish new joint programmes, particularly ambitious ones, is currently reduced.

Yet, international armaments cooperation is not inherently more complicated than national armaments development. It does, however, exponentially augment political and co-ordinatory challenges already present at national levels. Close attention is required, first, to the harmonization of requirements and their controlling so that they do not spiral out of hand; second, to the shared use of jointly procured capabilities, to avoid duplication. Finally, in Joint R&T projects, favouring step-by-step development geared to 80% rather than 120%-solutions is bound to contribute to the reduction of the well-known pitfalls of defence procurement both at national and international levels. Where it turns out to be adequate, procurement ought to rely to a greater extent on Commercial and Military Off the Shelf solutions (COTS-MOTS) as well as outsourcing through Public-Private Partnerships (PPP) or private providers.

Linking EU and EDA budgets for R&T 53

The Lisbon Treaty has opened up new ways to finance and conduct defence R&T activities and to redefine the status and competences of the EDA. Article 179.1 TFEU, by changing the scope of European research policy, links defence research to the EU's general research policy. This increases the pressure to find a common organisational framework for it. At the same time, Article 45.2 TEU gives governments the rare opportunity to redefine the role and position of the EDA vis-à-vis the other EU institutions: "The Council, acting by a qualified majority, shall adopt a decision defining the Agency's statute, seat and operational rules."⁵⁴

⁵³ Mölling/ Teichler Forthcoming SWP-Comment 2011

⁵⁴ TEU Ibid."Consolidated version of the Treaty on European Union." 13-45.

The negotiations about the Financial Perspective – the EU's multiannual budget for the years from 2013 to 2020 – will determine whether defence R&T might be included in the EU budget as a separate item or not. If defence R&T were not to be included in the EU budget, then it would continue to be financed exclusively by national budgets, a decision that cannot be amended for the duration of the Financial Perspective. As a consequence the potential closer and innovative cooperation between military and civil R&T and a more efficient use of scarce defence R&T funds for CSFP capability development would be foreclosed. For another decade, defence R&T cooperation in Europe would remain under the exclusive control of MoD while the stronger dynamics in civil research area would be left unexploited.

Three Options for future financing and organizing European defence R&T exist: If defence R&T is included in the Financial Perspective, research activities required for the CSDP could be financed, at least in part, through the EU budget.⁵⁵ Cooperation at EU level could take three forms, varying as to who would oversee the formulation of research policy and who would manage the use of defence research funds:

Defence research as part of FP8 overseen by the Commission

Defence research could be integrated to the largest possible extent with the EU's existing research instruments. In analogy to FP7 (2007-2013), which included for the first time security research, the next FP could entail defence research as a new domain. The Commission drawing on advice from governments and industry would plan, oversee and manage its funding.

While such a solution could generate a maximum of synergies with other civilian research themes, there are considerable risks and disadvantages. The general orientation of the FP on basic research and its rules, designed to promote openness towards the world and sharing of research results, are ill-suited for defence research, which is capability driven and where secrecy can be essential for security reasons.

The political leadership would stay with the Commission, delegating the implementation to the EDA via a contribution of "earmarked revenue" to the Agency's general budget. This could neither be in the interests of governments, parliaments, of MoDs or of the EDA. Moreover, given that this type of revenue cannot be spent on personnel and that an increase in the EDA's annual budget would depend on unanimity in the Council, a considerable number of the 120 employees would need to be shifted to deal with research with negative effects on the work of the other Directorates.

Defence research overseen by an enhanced EDA

Alternatively, the EDA could be given a new statute and operational rules. Article 45 TEU provides the legal basis for such a move and requires only a qualified majority in the Council. The EDA would receive financial resources not through the Commission but as a separate budget line from the EU and could implement it independently.

In this way, the EDA would be institutionally strengthened within the entire EU machinery, with governments maintaining political oversight over defence research. In the long run this would have the surest and largest benefits for the development and procurement of defence capabilities. Cooperation between the Commission and the EDA in order to achieve synergies would be more balanced. However, significant political resistance can be expected from countries who have in the past openly opposed an increased role of the EDA in defence research such as the UK or the Netherlands.

This way would, nevertheless, allow achieving a maximum of savings through European cooperation. If a significant part of defence research became to be managed at EU level, national management capacities in the 26 participating MS could be reduced. While this might be advisable in times of tightened defence budgets it remains doubtful that defence administrations would be enchanted by

⁵⁵ While research for nuclear weapons or encryption would remain national responsibility, research on CSDP capabilities such as CBRN, intelligence, surveillance, target acquisition and reconnaissance architecture or medical support could benefit from EU funding. For a list of relevant areas see EDA. (2008). "Background Note on Capability Development Plan." from <http://www.eda.europa.eu/genericitem.aspx?id=386>.

this prospect. After all, the R&T Steering Board of the EDA is composed of national R&T directors whose internal position and influence is often considered proportional to the size of staff working for them.

Flexible cooperation by interested member states in dedicated project organisations

A third way for closer integration of defence R&T at EU level might therefore be more promising. While R&T would be included in the EU budget, management and implementation would proceed through a mechanism provided by Article 185 TFEU. It concerns not only research but also development programmes i.e. a scope that would be suitable for defence purposes with its focus on capability development. The article states that the Union “may make provisions” to programmes “undertaken by several Member States”.

This option implies on the one hand, that a defence research programme would need to exist among MS. Only then the Commission could contribute to it. Given that there would not be any right of initiative for the Commission, MoDs would remain in control of the defence research. On the other hand, the flexibility provided by Article 185 would allow for an opt out by some governments. They would only participate through the EU budget in these projects, which would enable the EDA to draw on firms from those countries.

Finally, Article 185 implies that an implementing structure has to be created for such programmes. Thus, the EDA won't need to employ additional personnel and could continue to operate on its existing (or a slightly altered) legal basis. The potential for mid- to long-term cost savings would be considerably smaller than in the second way as national defence research administration would be required for an active support of the “implementing structures” of each project.

4.6 Tackling the capability development deficits

Pooling & Sharing in logistics and beyond

The EU member states should make more use of pooling and sharing (P&S), and actively engage in joint initiatives, be it in the area of capabilities, logistics or equipment. P&S allows to reduce costs and to ensure a better reliability of the required good. A number of concrete cooperative steps for pooling and sharing are already on the table. These would make particular sense in light of current strategic shortages and equipment needed in ongoing deployments.

Logistics

One example is logistics. With the help of framework agreements, the EU should pool the logistics of EU operations. This would require all member states to agree on basic standards, such as for life support, in order to create transparent requirements for the (civilian) contractors. It would simplify tenders, facilitate the quality check and allow concluding enforceable contracts. As mentioned above, the EDA could play a key role here, building on its TPLS platform an related experiences. Additionally, the member states could pool their resources in logistical warehouses.

The European Air Transport Fleet and the A400M

Important items for P&S are identified by the European Air Transport Fleet (EATF) Declaration of Intent (10. Nov. 2008), which states that the participation of EU Member States to the EATF in order to improve airlift capabilities in the EU could take the form of making available military transport aircraft; purchasing, providing or exchanging flying hours; and to provide and benefit from shared or pooled support functions.

An option for enhanced savings could be for the other nations participating to EATF that also ordered A400Ms (Germany, Spain, Belgium and Luxemburg) to pool their planes and join London and Paris in their cooperative efforts for training and logistics. This initiative could represent a budding European A400M-fleet for strategic airlift. The 2008 initiated European Air Transport Fleet (EATF) will pool

European air transport capacities once it will be operational in 2014. Comparable models should be envisaged for sea and land transport.

A European Air Defence Fleet and Launching Baltic Surveillance

Eurofighter nations and others could pool a certain part of their aircraft to form an EADF. This would represent another option to jointly save on maintenance and logistics. At the same time, such pooling could favour joint training and become the basis of a division of labour among states to guarantee missions other states cannot cover in the EU. Air Policing over the Baltic States has proven the feasibility of such co-operation. Moreover, creating a *Baltic Naval and Air Surveillance*, involving the Baltic States, Finland, Sweden, Denmark, Germany, and Poland could successfully feed from existing capabilities (Eurofighters, Gripen, F18s and F16s) as well as from already proven operational co-operation between Finland and Sweden. It would extend the co-operative experience of NATO's German-Polish-Danish Corps into the maritime dimension.

Maritime Mine Countermeasures

The overall aim of the European Defence Agency's (EDA) Maritime Mine Countermeasure (MMCM) Category B Project, is to prepare the replacement of the current capabilities of 11 EDA participating Member States from 2018 onwards.⁵⁶ France here acts as lead nation. Germany has historically showcased a great proficiency in mine-sweeping and certainly would contribute in a meaningful way to closer cooperation with London and Paris on this front and potentially contribute to a stronger start-up core.

UAVs and Communications Satellites

The planned assessment in 2011 of the prospects for a joint MALE UAV programme to be developed between 2015 and 2020 – another UK-French project – holds promise for cooperation to enable potential sharing of development, support and training costs, and to ensure that French and British Forces can work together. Whilst details remain scant on this point, France and the UK further want to assess cooperation potential for communications satellites. Yet in the 2020-2030 timeframe, such capabilities are also a matter of general European concern, in particular improved SATCOM capacities will be absolutely essential for UAV operations.

Furthermore, the strategic concern of both countries does not emphasise the potential civilian uses of UAV capabilities for homeland security uses (maritime surveillance, border surveillance) in which a greater number of European partners may be interested. Wider participation in acquiring Off-the-Shelf solutions may yield lower costs. Again, procuring jointly UAV capabilities and pooling them may fill a strategic need with dual utility both in the military and civilian field. From an Industrial perspective, a further option for European cooperation beyond the Franco-British interest in MALE UAVs might be to develop lower altitude medium endurance UAV technologies.

Use ATHENA to support the acquisition of shared EU equipment for joint operations

The lack of adequate options for financing joint capabilities or their availability limits the EU's ability to take action. In the military realm, only the costs related to Headquarters are covered regularly by all CSDP member states. This happens through a special mechanism called Athena. Athena finances the purchase of new equipment for each individual operation. These costs could be reduced if the EU member states would purchase their materials jointly and make them available for shared operations. This would make the EU less dependent on the individual member states that have provided equipment up to now. The equipment could be stored at a central location, where strategic transport would also be based. Hence Athena should be moderately expanded to include the joint EU purchase of military equipment that is used on every operation, such as HQ infrastructure and accommodations.

⁵⁶ Participant states are Belgium, Estonia, Finland, France, Germany, Netherlands, Poland, Portugal, Romania, Spain and Sweden (+ Norway as contributing Member State).

Using EU Battlegroups as a laboratory for Pooling & Sharing

The EU Battlegroups are currently the best developed mechanisms for regular and intense military pooling and sharing at the EU level. However, they disband after 6 months leaving out the option of economies through established routines. Moreover, they are too small to provide for the bandwidth of capabilities needed for current days contingencies. EU-Battlegroups should be used as starting point and a pool of best practices for an incremental evolution of P&S. This could take the form of continuation and extension. Some progress into these directions will be made possible as part of the Weimar triangle.

Continuation: more continuity could be reached if a group of member states decided to take over the responsibility to man a Battlegroup on a permanent basis. Currently, BG change according to a six month rotation scheme. Starting point for such a long-term cooperation could be the existing regular co-operation between individual countries for instance in the context of the Nordic Battlegroup. Apart from the political symbolism, continuation would also bear military and economic advantages: Logistics, command and control and planning arrangements could be used continuously. The institutional knowledge on the command level of a unit would be continuously available. This solution could contribute to the further harmonization of standards.

Expansion: The BG-concept could be expanded to include more troops and to comprise a more comprehensive mix of capabilities. The aim would be to transfer the high degree of readiness that is linked to a Battlegroup to a larger part of EU armed forces. Instead of the ten-day readiness anchored in the original BG Concept, a gradual approach to readiness could be introduced. Such a larger formation would comprise troop units that exhibit various degrees of readiness, from 48 hours to 60 days. Every time a part of the larger unit is deployed, another troop unit with the same ability, but lower degree of readiness follows. Thus the overall troop component remains on the highest possible level.

Personnel: More effective military structures

Substantial potential for savings can be found in the largest budget item: personnel. As already mentioned, the twenty-six states participating in the CSDP still foot the bill for nearly two million soldiers, a number with no basis in the needs of current or future crisis management operations. Therefore structural reform can produce savings without harm to operational readiness, modernisation or procurement. However, fundamental interventions will require national military planning of the different countries to be coordinated, and ideally overcome.

The EU battle groups represent a first, small step in this direction. As well as creating a quick response capacity for the EU, they have also already positively influenced communication between the respective troop contributors with regard to joint operations concepts, training and equipment. The underlying mechanism for generating European capabilities should be expanded to other fields. A modular structure and complementary scheduling of national contributions would represent a big step for the EU towards joint operational readiness.

Another option is role specialisation, with individual states limiting themselves to particular military capacities which they then coordinate with partners such that in alliance all required capabilities are available. That naturally means a greater degree of mutual interdependence. But this can be reduced – and a degree of redundancy introduced – if critical capabilities are provided by a small group of states rather than just one.

4.7 Engaging with the armaments dimension

Towards a European Industrial Policy

If there is to be comprehensive reform of the EU's defence technological and industrial base it would be obvious to develop a European industrial policy aligned with PSCoP to organise and implement a

consensus about a sensible distribution of national core competences for the benefit of the Union as a whole. The precondition for this would be to define strategic priorities for the joint capability portfolio the EU wishes to maintain and promote. Special attention should be given to those technologies that ensure certain independence over other actors or where there are already comparative advantages within the EU.

Hopes are high that the European Commission's "Defence Package" may bring about – through enhanced competition – a further consolidation of supply. Yet, whilst firms are already re-orienting with greater consequence towards global demand, industry representatives are quick to point out that a meaningful consolidation of demand also needs to take place. The latter may well entail a risk – seen from a national point of view – of a redistribution of production lines and the weakening of technology bases in European countries.

Despite calls for sustained targeted national orders, industry is keen on enhancing its exports. Since the reliance on export-led growth emerges as the main reaction of most European defence firms to the crisis, the issue of the sustainability of such strategy will sooner or later emerge. Two dynamics are likely to surface:

First, European firms risk being crowded out of sectors where there is too much European and international competition, driving down income and eventually leading to externally induced consolidation of supply. Especially Small and Medium Enterprises will be concerned by this trend and are likely to be less resilient in case firms rely to a greater extent on technology transfer to increase export shares.

Second, over-supply may increase the bargaining position of those states currently purchasing defence goods. Increased transfer of Intellectual Property Rights (IPR) might be the difference that makes or breaks a deal. If European firms are over-reliant on export strategies, especially towards rising powers, important IPR may be lost—with ensuing political, strategic and economic consequences. Joint European export support strategies could be one remedy to the problems likely to arise in the face of an uncoordinated rush to greater export reliance.

Towards an Industrial Headline Goal 2030

Back in 2006 the defence ministers of the EU member states subscribing to the ESDP (i.e. all but Denmark) declared that: "... a fully adequate DTIB is no longer sustainable on a strictly national basis – and that we must therefore press on with developing a truly European DTIB, as something more than a sum of its national parts. We cannot continue routinely to determine our equipment requirements on separate national bases, develop them through separate national R&D efforts, and realise them through separate national procurements. This approach is no longer economically sustainable – and in a world of multinational operations it is operationally unacceptable, too."⁵⁷

Member States also need to find common denominators in their approach to armaments policy in order to define a strategic European defence-industrial policy. Such policy would contribute to the consolidation of defence industry across the EU by strengthening those sectors, in which Europe's defence industries hold a comparative advantage on the global market. Candidates to such strategic European industrial policy could be the aerospace (aircraft, UAV, satellites), missile, naval (including submarines) and protected-vehicle sectors.

Defining industrial headline goals for 2030 could be one step to materialize such strategic European industrial policy. It would be based inter alia on the mapping of the European industrial comparative advantages by global comparison as well as on the objectives of appropriate technological sovereignty (where dependencies of the EU are not considered reasonable).

⁵⁷ <http://www.eda.europa.eu/genericitem.aspx?area=30&id=211>

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Under the pressure of industry, London and Paris also tacitly seem to have agreed on trying to form a monopoly in the field of nuclear submarine technology. A clear division of labour along lines of production could be a useful outcome of this trend. In the naval sector, a consolidation at European level of French and German competencies in the field of conventional submarines could represent one option.

Consolidation of Demand

Consolidation can happen either through joint R&T projects or through bundling demand for shared capability needs (harmonization of demand, synchronization of procurement, cooperative or common procurement).

It seems illusory that a stronger reliance on exports on behalf of industry can be – or even should be – avoided altogether. Yet, greater cooperation between government and industry could help diversify industry's strategic approach in the face of the challenges ahead.

Industry cannot be required to consolidate without the adequate political strategic direction and impetus. Indeed, consolidation of demand is a matter of defence policy as well and needs to occur along politically defined strategic lines, possibly based on a joint European Strategic Defence Review. European demand – with harmonized and controlled requirements – needs to be bundled with greater consequence, in order to generate according revenues and economies of scale at the European level.

Encouraging the security-defence diversification in European Industry

In order to cushion the blow from increased competition due to stronger export strategies, firms that are not competitive or not part of competitive sectors should actively pursue portfolio diversification by increasing reliance on civil security or on dual use goods rather than solely on defence goods – this may represent the best preventive means to avoid uncoordinated dismantlement of industry and job-losses across the EU. Industry and government ought to consult to devise exit or diversification strategies to this end. Some degree of sector consolidation seems unavoidable, however.

4.8 Specific Recommendations to the European Parliament

This section closes with our recommendations to the European Parliament, taking especially into account the new rights the EP holds in the area of CFSP/CSDP. These recommendations will concentrate on the EP's options to support the necessary steps to introduce and implement an effective EU defence sector strategy in times of austerity (linking especially the industrial and capability dimension) delineated above.

Article 36 TEU

Article 36 TEU postulates the EP's right of information on CSFP and CSDP issues on behalf of the High Representative. It also postulates the right to address queries and make recommendations to the

Council and the High Representative and establishes that it shall hold a debate on the progresses achieved in implementing the CFSP twice a year.

Even if these rights of consultation do not offer an excessive leverage to the EP, they offer a way to stay in the information-loop, bring ideas into the policy-process, and raise public awareness of key issues through regular public debates. More concrete recommendations to the European Parliament under Article 36 TEU are:

- to get regularly informed by Lady Ashton on progress achieved in the Ghent Process and the enhanced role of EDA in this context;
- to use bi-annual debates to take the opportunity to raise public awareness of key-issues in progress of the Ghent Process, including the defence industrial dimension;
- to take the results of this study as a starting point to encourage member states conducting a public EU Strategic Defence and Security Review or alternatively to that the study as a basis and transfer it through other means into a monitoring of member states activities. This could be a longer term project of an web based public effort, that collects relevant information;
- To encourage member states to make better use of the capacities and the potential of the European Defence Agency. The EP may underline the role of the EDA and an EU-Institution by strengthening the inter-institutional relations among EDA and EP;
- to encourage the Polish government to put an expansion of the areas financed by the ATHENA mechanism on the agenda of the regular revision meeting under their presidency. It should include joint purchase of military equipment that is used on every operation, such as HQ infrastructure and accommodations;
- to get detailed information on the member states perspective on EU Battlegroups as a success and failure and their future perspective;
- To introduce the idea of a European industrial policy and an Industrial HG 2030 to other EP committees, opting for a concerted approach vis-à-vis the Commission and the Council;
- to work out concrete ways to enliven the clause that the “views of the EP are duly taken into consideration” related to the problems and solutions pointed out in this study.

Budgetary

In case that defence R & T were to be included into the EU budget, the EP would acquire leverage to shape the European agenda in line with a European Industrial Headline Goal 2030 as part of its budgetary powers. The same would be true if at least parts of the EDA Budget would be sourced from the EU-Budget.

Legislation

Relevant legislative acts would most likely result from a concerted approach of the SEDE and other EP-Committees responsible for the classical community policies. Such joint approaches could be very effective, taking into account the underdeveloped framework in the area of industry and market issues in security and defence.

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**THE IMPACT OF THE
FINANCIAL CRISIS ON
EUROPEAN DEFENCE**

ANNEX

SEDE



DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

**THE IMPACT OF THE FINANCIAL CRISIS
ON EUROPEAN DEFENCE**

ANNEX

(Events taken into account until 1. April)

EXPO/B/SEDE/FWC/2009-01/LOT6/11

APRIL 2011

PE 433.831

EN

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ABBREVIATIONS

AMV	Armoured Modular Vehicle
C2	Command and Control
C3	Command, Control and Communications (US); Consultation, Command and Control NATO)
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CBRN	Chemical, Biological, Radiological and Nuclear
CIACI	Interministerial Committee to support Civil and Military Export
CIMIC	Civil-Military Cooperation
COTS	Civilian Off The Shelf
CS	Counter-Strike
CSAR	Combat Search And Rescue
CSS	Combat Service Support
DCNS	Direction des Constructions Navales Services
DGA	Délégation Générale pour l'Armement
DIRCM	Laser-based infrared countermeasures system
DIS	Defence Industrial Strategy
DPG	Defence Policy Guidelines
EADS	European Aeronautic Defence and Space Company
EOD	Explosive Ordnance Disposal
EU	European Union
EUFOR	European Force
EUSEC	European Communications Security and Evaluation Agency of the Military Committee
EUTM	EU Training Mission
FREMM	Frégate Multi-Mission
GAF	German Armed Forces
GDP	Gross Domestic Product
IED	Improvised Explosive Device

IMF	International Monetary Fund
ISAF	International Security Assistance Force
ISR	Intelligence, Surveillance and Reconnaissance
ISTAR	Intelligence, Surveillance, Target Acquisition and Reconnaissance
JSF	Joint Strike Fighter
KFOR	Kosovo Forces
LoA	Level of Ambition
MALE UAV	Medium-Altitude Long Endurance UAVs
MBDA	Matra BAE Dynamics Alenia
MBU	Modular Battle Units
MEADS	Medium Extended Air Defense System
MED	Ministry for Economic Development
MED	Ministry of Economic Development
MINURCAT	UN Mission in the Central African Republic and Chad
MoD	Ministry of Defence
MONUC	Mission de l'Organisation des Nations Unies en République Démocratique du Congo (UN Observer Mission in the Democratic republic of the Congo)
MOTS	Military Off The Shelf
MPL	Military Programming Law
MRAP	Mine-Resistant Ambush-Protected Vehicle
NADMP	National Air Defence Modernisation Plan
NATO	North Atlantic Treaty Organisation
NBC	Nuclear, Biological, Chemical
NORDEFECO	Nordic Defence Cooperation
NRF	National Reserve Forces
NSS	National Security Strategy
OHB	Orbitale Hochtechnologie Bremen
OMLT	Operational Mentor and Liaison Team

OSCE	Organisation for Security and Cooperation in Europe
PfP	Partnership for Peace
R&D	Research and Development
SAR	Search And Rescue
SDR	Strategic Defence Review
SDSR	Strategic Defence and Security Review
SEDM	South-Eastern Europe Defence Ministerial Process
SEEBRIG	South Eastern Europe Brigade
STOVL	Short Take-Off Vertical Landing
UAV	Unmanned Aerial Vehicle
UN	United Nations
UNDOF	UN Disengagement Observer Force
UNFICYP	UN Peace-Keeping Force in Cyprus
UNIFIL	United Nations Interim Force in Lebanon
UNMIS	UN Mission in Sudan
UNTSO	UN Truce Supervision Organization
WMD	Weapons of Mass Destruction

1 STRUCTURE AND METHODOLOGICAL CONSIDERATIONS

This annex offers an overview of the defence sectors of all EU member states and gauges the recent impact of the financial crisis on defence expenditure and ongoing reform efforts to national armed forces. It is a companion document to the study “*The Impact of the Financial Crisis on European Defence*”, which draws its analysis and recommendations on this volume’s empirical insights.

EU member states are divided into three groups (A, B, C), according to the size of their armies and their defence budgets, to the amount of contributions made to EU capabilities and to the size of their defence industry.

The country case-studies of this volume follow a basic structure in six parts:

- Each case study starts with an overview of quantitative indices (GDP, gross public debt, net lending or borrowing, defence spending, force size).¹ For some countries, recent data was not available and has been marked accordingly in the tables (n.a.).
- We then gauge the overall impact of the financial crisis on the defence budget of a state where data is available, with a particular focus on the years 2009 to 2011. This section identifies to which extent a national government has been affected by the crisis and is seeking to redistribute the consolidation effort to its Ministry of Defence (MoD).
- A third section seeks to deliver more detailed insights about the impact of potential consolidation efforts on the ongoing reform process of the armed forces. It sketches the key drivers and goals of reform processes, as well as the planned force structure and capabilities. We identify what items of the reform process are directly affected by planned cuts: Is it the end-strength and the size of the civilian personnel? Or is it the modernization and the procurement of new of equipment?
- A fourth section gauges the extent to which levels of ambition and ongoing international engagements are directly affected by cuts: Do we see drastic reductions in international engagements or hasty withdrawals?
- A fifth section identifies where possible the member-state’s attitude towards pooling and sharing and highlights where adequate areas of ongoing cooperation.
- Finally, a sixth section addresses where adequate the state of the national defence industry as well as the impact of the crisis on this sector. The defence industry is very thin in some countries, so this section may be missing in certain cases.

With regard to the type and status of ongoing reforms of the armed forces, the case studies are mostly based on Bastian Giegerich and Alexander Nicoll’s excellent review of ongoing reform trends across Europe (*European Military Capabilities: Building Armed Forces for Modern Operations*, IISS, London, 2008). For a rendition of recent reactions to the financial crisis, the paper draws strongly on publicly available information (printed press, online media), but also selectively on interviews and a peer review by partner research institutes across the EU 27. Both the inherent difficulty in obtaining reliable information on defence matters and the timely and unfolding nature of the topic have put a caveat on the information contained in this document. This volume chiefly offers to policy-makers a snap-shot impression of the impact of the crisis on defence across the EU that has been missing to date.

¹ Data on GDP and GDP per capita, gross public debt in bn Euro and % of GDP, and net lending or borrowing in bn Euro and as % of GDP stems from the *AMECO Database* (European Commission, October 2010). The source for data on defence budgets in Euro and as % of GDP and for military personnel is *The Military Balance* (IISS, London, Volumes for 2005 through to 2010).

2 CATEGORY A

2.1 France²

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	1,726.07	1,806.43	1,895.28	1,948.51	1,907.15	1,947.85
GDP per capita, euro tsd.	27.42	28.50	29.72	30.38	29.57	30.05
Gross public debt, euro bn.	1,145.40	1,149.90	1,209.00	1,315.10	1,489.00	1,615.80
Gross public debt (% of GDP.)	66.36	63.66	63.79	67.49	78.07	82.95
Net lending (+) or net borrowing (-), euro bn.	-50.37	-41.07	-51.43	-64.68	-143.83	-150.76
Net lending (+) or net borrowing (-), % of GDP	-2.92	-2.27	-2.71	-3.32	-7.54	-7.74
Defense budget, euro bn.	32.90	35.40	36.20	30.38	32.00	32.10
Defense budget, % of GDP	1.91	1.96	1.91	1.56	1.68	1.65
Military personnel						
Armed forces	254,895	254,895	254,895	254,895	249,395	249,395
Gendarmerie	104,275	104,275	104,275	104,000	103,376	103,376

2.1.1 Impact of the Financial Crisis on the Defence Budget

The overall economic situation in France is poor, as the budget deficit lies at 8% and the debt rate at 83% of GDP in 2010. In light of the financial crisis, a revised defence triennial spending law for the period 2011-2013 was unveiled in late September 2010. Total defence spending for that period will amount to €91.6bn, instead of €95.3bn—as initially planned in the 2009-2014 Military Programming Law (MPL).³ Between 2011 and 2013, the French armed forces will thus need to save €3.5bn. This initial proposal from the Defence Ministry was validated by the adoption of the budget on 29. December 2010.⁴

The defence budget was supposed to benefit from €2.4bn due to the selling of real estate and military radio frequencies in 2009 and 2010, but the Ministry of Defence has not succeeded in doing so to date.⁵ In January 2011, a deal over real estate seemed likely to succeed that could bring €150m in revenues. The military radio frequencies that would bring about €850m have yet to find buyers. To date, planned sales of real estate, the decrease in personnel and the outsourcing of certain tasks have not even added up to 20% of expected returns.⁶

However, a gap seems to exist between intended cuts according to government declarations and the sum of de-facto planned and necessary cuts. Independent estimates of planned cuts, postponements and freezes consider them to amount to a contraction of financial means of about €6 to 7bn.⁷ Observers are also keen to point to the fact that the deficit for financing the previous MPL (2008 to 2013) had already been at €3.6bn at the end of 2010. This situation makes a future payment slump by the end of 2013 inevitable.⁸ The likelihood of such slump is reinforced by a number of additional costs not much

² This section is based on Jean-Pierre Maulny, Chapter Two: France, in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

³ 'Le budget de la défense sera réduit de 3,5 milliards d'euros en trois ans', *Le Nouvel Observateur*, 02.07.2010.

⁴ Loi no. 2010-1657 du 29 décembre 2010 de finances pour 2011 (1), *Journal Officiel de la République Française*, numéro 3002 du 30 décembre 2010, p. 23033.

⁵ Véronique Guillermand, Cécile Crouzel, 'Budget de la Défense: la recherche préserve', *Le Figaro*, 08.01.2011; Bernard Cazeneuve, François Cornut-Gentille, *Rapport d'information sur la mise en œuvre et le suivi de la réorganisation du ministère de la défense*, 2ème rapport d'étape, Commission de la défense nationale et des forces armées, Assemblée nationale, April 2010.

⁶ Louis Gautier, 'Budget de la défense: tour d'écrou et escamotage', *Les Echos*, 01.12.2010.

⁷ Ibid.

⁸ 'Défense: des budgets mal en point', *La lettre A*, 29.10.2010.

taken into consideration to date: the costs of re-joining NATO have been estimated at €600 to €800m and those of military operations around the world to around €850m per year.⁹

2.1.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The transformation of the French military forces to become more expeditionary began in 1989: The “Plan Armées 2000” aimed at increasing combined forces. In 1994, the French government decided to close and gather military bases in order to save money. In 1996, a major reform led to the end of conscription and the gradual introduction of a professional army. This transformation lasted four years (1996 to 2002).

Force Structure and Personnel

No cuts in force structure are planned as a direct consequence of the financial crisis, since restructuration efforts and significant cuts are already part of the implementation of the White Paper’s guidance on Defence and National Security from 2008. The White Paper launched a new transformation of French military forces, including a total personnel reduction of 54,000 to an end-strength of about 225,000 troops by 2015. During the 2009-2014 Military Programming Law, the total number of personnel is expected to decrease from 314,000 to 276,000. The objective is to pool logistic and support functions together. In order to do so, a rationalisation of military bases is foreseen (leading to aggregating all the military forces in 75 major military bases). By the end of the process in 2015, the objective is to have achieved savings of €1.6bn per year– although no signs of savings have been visible by the end of 2010¹⁰.

Equipment and Procurement

Should the revenues of €2.4bn from the sale of real estate and military radio frequencies fail to materialize, the MoD declared that all procurement items will be scanned for potential savings and postponements. However, the MoD wants to protect a number of sectors from cuts, such as deterrence and intelligence surveillance and reconnaissance (ISR).

The MoD also intends to keep up R&D funding at around €700m per year until 2013.¹¹ Despite a real cut of about €1.7bn in comparison to the previous programmatic law, the procurement budget is also planned to slowly increase from €16bn in 2011 to €16.8bn in 2012 and to €17.3bn in 2013.¹²

In addition to the protection of R&D, a stimulus package for armaments of around €2.3bn was adopted for 2009 and 2010. Contrary to the general trend in Europe, then, the French defence sector had a boom in this period. For the Navy, the BPC Dismude was commissioned to compensate the lacking demand in cruise vessels. Due to difficulties in exporting the Rafale fighter jet, the MoD added an order for 11 Rafale per year between 2011 and 2013 to keep Dassault’s line of production alive. Wherever demand is present, the government actively seeks to support export. Russia for instance signed a deal for 2 helicopter-carriers of the MISTRAL-class with France in late January 2011, which would allow maintaining the strategically important STX-shipyard in St-Nazaire.¹³ It is the only one in France with the know-how and capacities for the construction of aircraft-carriers.

However, the governmental effort to keep certain lines of production open will be compensated by postponing the modernisation of the Mirage 2000D fighter and the Scorpion modernisation programme for the land forces as well as the Multi-Role Transport Tanker.¹⁴ The decision also casts

⁹ Jean Guisnel, ‘Alain Juppé, et maintenant, au boulot!’ *Le Point*, 15.11.2010.

¹⁰ Cazeneuve et al., 2010.

¹¹ Véronique Guillermand, Cécile Crouzel, *Le Figaro*, 08.01.2011.

¹² Jean Guisnel, *Le Point*, 15.11.2010.

¹³ Agence France Presse, ‘Russia, France sign deal on two Mistral-class helicopter carriers,’ 25.01.2011.

¹⁴ Véronique Guillermand, Cécile Crouzel, *Le Figaro*, 08.01.2011.

uncertainty about the financing for the planned MALE-UAV orders. Indeed, the launch of new programmes in the coming years seems unlikely, despite the fact that the draft 2011 defence budget law announces that credits will fund the MUSIS space observation programme and UAVs for the French Air force. The inter-ministerial budget will be used to fund the extra cost of the A 400 M programme – where €400m are needed to conclude the new contract and to save the programme.

2.1.3 Level of Ambition and International Engagement

The level of ambition is not being reduced as reaction to the financial crisis. The French government explicitly does not declare a date for withdrawal from Afghanistan. Funding for the mission in Afghanistan will see an increase by €60m to €630m in 2011.¹⁵

2.1.4 Pooling and Sharing Options

With regard to international cooperation for military engagements, France showcases an open attitude as a consequence of its ongoing reductions in force-structure and capabilities. The French government seeks to actively search for cooperation opportunities rather than to react passively to the pressures of the financial situation and the ensuing political environment. France has decided to promote bilateral dialogue with the UK and Germany in order to find new solutions to the challenge of austerity. In both cases, the possibility of pooling capabilities was mentioned. Paris has engaged Germany on this front over the past months through different structures: The Franco-German Ministerial Council, the Franco-German Defence and Security Council (with its working groups on capabilities, strategy and operations, and sub-working groups on different armed services and armaments policy) and finally the ad-hoc working group launched by both Defence Ministers in mid-2010 tasked to identify specific projects for further cooperation. On 2. November 2010 during the Franco-British Summit a framework agreement on defence cooperation was signed between the two countries. Apart from the co-operation in nuclear testing, 17 topics for further collaboration were identified.¹⁶ London and Paris agreed to pool logistics and training for the A400M. France will use spare UK air-tanker capabilities and research and technology co-operation will be continued with a joint annual budget of €100m. One essential caveat in the negotiations about pooling and sharing, however, is France's priority to secure its own political capacity to act. It is currently inconceivable to the French government to rely on the military capability of other states without a guarantee that those would be available to France to pursue priorities in national security policy (including French military operations abroad). This is why France has in the past months been engaging in a dialogue with a state such as the UK that shares a similar security culture. The Ghent-Process is welcomed by France, but its key-priority even in this framework is to maintain France's independent capacity to act.

2.1.5 Defence Industry

The turnover of the French defence industry is around €15 billion per year. Around one third is related to export. Different strategies are being used to face the diminishing defence budget.

The French procurement agency, the DGA, tried to oblige Sagem and Thales to merge their optronic assets, because the market is too small for two companies. Even though the French State is a shareholder of the two companies, Sagem and Thales have not submitted to the wishes of the French government so far. Recently, former Minister of Defence, Hervé Morin, commanded the DGA to stop ordering R and T studies from the two companies in order to force them to merge their common assets.

¹⁵ Agence France Presse, 'Budget Défense: Augmentation de moyens pour les opérations extérieures,' 29.09.2010.

¹⁶ Prime Minister Alastair Cameron (UK), President Nicolas Sarkozy (France), *UK-France Summit 2010 Declaration on Defence and Security Co-Operation*, 02. November 2010, London, UK. Collaboration is planned in the following areas: nuclear stockpile stewardship and testing; exchanges between UK and French Armed Forces in operational matters; strengthening industrial and armaments cooperation; pursue joint initiatives in three key areas:

- *operations and training* (creation of a Combined Joint Expeditionary Force; joint operation of aircraft carriers),
- *equipment and capabilities* (A400M joint support, training and further cooperation in maintenance and logistics; joint development of submarine technologies and systems; aligning plans for maritime mine countermeasures; enhancing cooperation on satellite communications; potential use of spare capacity in the UK's Future Strategic Tanker Aircraft programme for France; launching a competitive assessment phase for the joint development, support and training costs for the next generation of MALE-Unmanned Air Surveillance Systems; joint assessment of requirements and options for the next generation of Unmanned Combat Air Systems)
- *defence industrial concerns* (development of a 10-year strategic plan for the British and French Complex Weapons sector, joint R&D).

At the European level, the Franco-British initiative aims at furthering the integration of MBDA in order to rationalize the localisation of the company sites in the UK and in France within the project "One MBDA". Paris and London also agreed to co-operate on the next generation of nuclear submarines, mine countermeasures, Satellite Communication, in the missiles sector, as well as on MALE UAVs and on UCAVs. All these co-operation items could lead to industrial consolidation. However, this is not a declared political aim, except for missiles, where the objective is to have further consolidation within the Franco-British-German-Italian company MBDA.

Faced with stagnating export rates, the French government has actively sought to push exports for the past three years. In 2008, it created an inter-ministerial committee to support civil and military export (CIACI), and there is now a "war room" dedicated to this issue at Elysée Palace. The efforts seem to have paid off, as the DGA stated that export orders for French defence equipment had climbed to around €8bn in 2009.

2.2 Germany¹⁷

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	2,242.20	2,326.50	2,432.40	2,481.20	2,397.10	2,489.52
GDP per capita, euro tsd.	27.19	28.25	29.57	30.21	29.28	30.50
Gross public debt, euro bn.	1,524.40	1,571.60	1,578.70	1,643.80	1,760.50	1,884.80
Gross public debt (% of GDP.)	67.99	67.55	64.90	66.25	73.44	75.71
Net lending (+) or net borrowing (-), euro bn.	-73.95	-36.83	6.55	2.82	-72.91	-91.28
Net lending (+) or net borrowing (-), % of GDP	-3.30	-1.58	0.27	0.11	-3.04	-3.67
Defense budget, euro bn.	23.50	27.90	28.40	29.50	31.10	31.10
Defense budget, % of GDP	1.05	1.20	1.17	1.19	1.30	1.25
Military personnel Armed forces	284,500	284,500	245,702	245,702	244,324	250,613

2.2.1 Impact of the Financial Crisis on the Defence Budget

The German defence budget has been underfinanced for quite some time. Equipment necessary for operations was not purchased in sufficient quantities. This situation became rather dramatic with the Afghanistan operation getting more intense in terms of fighting.

On 7 June 2010, the government set course for a drastic consolidation of the federal budget. This was imminent due to the increased debt incurred for the national stimulus programme but also because of the constitutional anchored "debt brake". It obliges the government to restrict new debt to not more than 3.5% of GDP per year from 2016 onwards.

Simultaneously, the cabinet kicked off the reform of the German Armed Forces. The MoD bound itself to generate savings of €8.3bn from the defence budget between 2011 and 2014. €4bn should result from savings in personnel costs. It was assigned together with a specially convened *Commission on Structural Reforms* to demonstrate the implications of a reduction in personnel of up to 40.000 soldiers the suspension of conscription as well as ways to streamline administration and rationalise procurement and acquisition. Moreover it shall identify options for savings through better pooling and sharing within EU and NATO.¹⁸

¹⁷ This section is based on Sophie C. Brune, Chapter Three: 'Germany, in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

¹⁸ Griephan Briefe 29/10.

As it currently stands, the MoD is not able to generate the savings it has accepted. Instead reform induced changes are envisaged to generate extra costs of about €1bn.¹⁹ The Treasury has lowered the financial pressure for the MoD by extending the savings horizon from 2014 to 2015. Due to a change of the minister itself it is now to the successor – Mr de Maizière - to outline the future course of the defence reform. He already made clear that he will restructure the armed forces not only along the security challenges but also in accordance to the foreseen budgetary limits²⁰

2.2.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Despite the growing engagement in crisis-management tasks beyond the Euro-Atlantic since 1990, the German Armed Forces (GAF) force structure and rationale for the use of military force remained long geared for territorial defence. A first review process aiming at restructuring the Armed Forces took place in 2000. The Defence Policy Guidelines (DPG) that eventually came out of this review in 2003 stated that the GAF should now be equipped to participate in operations “anywhere in the world and at short notice and...across the entire mission spectrum [including] high-intensity [combat] operations.”

Currently, Germany is engaged in the largest structural reform of its armed forces since the end of the Cold War. The twin pressures of the need to enhance deployability –brought home especially by the Afghanistan -operation - and the financial crisis have resulted in an attempt to redefine the force structure of the GAF, as well as its capabilities.

Force structure and Personnel

The *Commission on Structural Reforms* submitted its report in early November to the Defence Minister. It recommended to reduce force levels to around 180,000 troops, to suspend conscription and to use pooling and sharing at European level to achieve more savings. Whilst offering options to trim and restructure the MoD as a whole, it also speaks in favour of enhancing the responsibilities of the Chief of Defence.²¹

The only concrete change that has been introduced is the ending of conscription by mid-2011. From then on the GAF would turn into an all-volunteer force. However, final structure and size are still left open. While the restructured GAF would be able to fulfil its security tasks with 164,000 soldiers according to the report by the Chief of Defence²² it is likely that the final number of military personnel will end up at about 185,000 soldiers – 170,000 plus 15,000 short term volunteers. While the smaller option would save about €1.5bn p.a. any reform would first of all induce costs. Hence, savings are likely to be seen only in some years.

Reforms are foreseen for the command structure to increase deployability and readiness. The impractical tripartite structure of crisis response, stabilisation and defence forces is likely to be given up. Instead, two army divisions with three mixed brigades each may represent the future structure. These shall form the backbone for force generation with increased sustainability and flexibility concerning the mission spectrum. The number of infantry units is to be increased as they have been missing during last deployments. Moreover, there is likely to be a pool for rapid response.²³ Air Force/ Navy

On 7 February 2011 the MoD made further suggestions, targeting especially the ministerial structures. Accordingly, the currently 17 departments shall shrink and become reorganized into 8. While the ministerial staff is decreased from 3,200 to about 1,800, the only direct savings result from the lower amount of staff that receives the allowance for working in the ministry. Key of the ministerial reform is the transfer of the chiefs of the services out of the ministry. Moreover the inspector general will become

¹⁹ Handelsblatt 7.2. 2011, p.14.

²⁰ Bundesminister der Verteidigung: Weisung zur Strukturreform 22.03.2011

²¹ Bericht der Strukturkommission

²² Wieker Bericht, p. 49.

²³ Griephan Briefe 1-2/11

a “real” chief of defence, i.e. head to the inspectors of the services. At the same time he loses some competences.²⁴

Equipment and procurement

In the light of the budget pressure, some immediate decommissioning has already taken place. The Navy has taken its six 206A submarines out of service before the planned date. The fleet of more modern 212A Class submarines will grow up from currently 4 to 6 units by 2013. K130 Corvettes could replace eight Type 122 frigates in 2012-13. A further reduction is planned in the order of three instead of four frigates F125 between 2016 and 2019. The Air Force will retire 15 TRANSALL and reduce flight hours. The decommissioning of TORNADO fighters (from 185 to 85) will take place earlier than planned. The Army will take out of service several LEOPARD II main battle tanks, around 60 MARDER armoured fighting vehicles, as well as armoured anti-air and artillery vehicles. Upgrades for the remaining LEOPARD II may be postponed. The status of decision or implementation for the majority of these cuts is uncertain.

Further cuts in acquisition could be part of the savings effort. The inspector general has advocated for fundamental reforms of the acquisition process and speaks in favour of buying more commercial and military off-the-shelf solutions in his report to the Cabinet.²⁵ A priority list for equipment programmes shows options for acquisition cuts summing up to €9,4 bn. It i.a. suggests that the number of initially planned NH 90 transport helicopter could be reduced from 122 to 80 as well as the anti-tank helicopter TIGER (from 80 to 40). The final tranche (3b) of the EUROFIGHTER will probably be cancelled (about 37 units) or sold on the international market, if the contract does not allow for cancellation. Orders for the armoured vehicle PUMA might also decrease from 400 to 280 units.

Yet, the amount of savings will depend on MoD's negotiations with industry on foregone contracts since cancellation clauses would incur penalties for the MoD that might make cancellation economically unsound. The resell of some units may be necessary. Following the recent re-negotiation of the procurement terms for the A400M, Germany will buy only 53 of the initially 60 planned A400M transport aircrafts for the initially agreed price. But it has to maintain a €500 million loan guarantee for EADS should the A400M not export satisfyingly.

2.2.3 EU Pooling and Sharing Options

The *Wieker Report* also identifies increased pooling and sharing of capabilities as one way to achieve savings through international cooperation. Yet he cautions about the political challenges involved in making such cooperation genuinely effective.

Most importantly, Germany has introduced the *Ghent Initiative*, jointly with Sweden. It aims to assess options for pooling and sharing. The initiative has been welcomed by the European Council in December 2010 and thus Europeanized. During the next six month CSDP member states will analyse their national capabilities along three criteria: as to what extent and by what measures the interoperability of those capabilities that have to remain under national control could be increased; which capabilities allow options for pooling; which capabilities and support structure offer potentials for role and task-sharing through intensified cooperation.²⁶

Moreover, the *Weimar initiative* to CSDP by France, Germany and Poland aims to strengthen CSDP capabilities through increased multilateralization and pooling of forces. This initiative has been welcomed by the High Representative and will be taken forward on the EU/EAD level and by the three

²⁴ MoD: Konzentration und Verantwortung: Die Prozessorientierte Neuausrichtung der Bundeswehr

²⁵ Wieker Bericht

²⁶ Council conclusions on Military Capability Development. 3055th Foreign Affairs (Defence) Council meeting Brussels, 9 December 2010. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/esdp/118348.pdf

initiating countries. On the bilateral level the French and German Planning Staffs have analysed options for pooling and sharing. This process has not delivered any visible results so far.

2.2.4 Defence Industry

German defence industry has not suffered significantly so far from the financial crisis. Growth is expected to be higher in 2010 than anticipated (€3.9 bn. as compared to expected €3.7 bn.). Still, the effects of decreasing public spending are to arrive over the next years.

While German defence industry maintains significant overcapacity in land and navy systems, the economic data available from individual German defence firms like Rheinmetall, EADS, OHB and Diehl seems to paint a mitigated picture: Most firms are starting to show clear signs of recovery from the peak of the crisis in 2008-2009.

Not all recoveries are due to defence-related activities. Firms specialising in systems that are important for current operations have largely profited from the recent government efforts to improve acquisition for ongoing deployments. Rheinmetall's defence business, for instance, has turned into the strongest section of its portfolio, thanks to the strong demand from the MoD whilst suffering from the crisis in the automotive sector. The space technology company OHB, is booking net growth in 2010, and is expanding its international ties, including those to China. Other firms like Diehl are recovering due to their civilian or dual-use activities. Yet, small and medium enterprises in the aerospace sector and those specialising in maintenance work, as well as outfitters or subsystem suppliers are already suffering from the freeze in contract awards imposed by the MoD on maintenance expenses.

Hence, industry and unions are getting sensible for the governmental plans. While there is the general threat of production site closure, they see the plans of more COTS/MOTS as weakening the national industrial and knowledge base for strategic sectors like UAVs and naval production. Hence, they aim for targeted national orders and the shortening of administrative delays for exporting defence goods. Without domestic support for R&D and the national endorsement of products, industry fears its chances to stand on the international market will be reduced as well –with clients such as India, Brazil, the United Arab Emirates or Saudi Arabia becoming ever more demanding about the quality of goods and a maximum technology transfer.

Whether the "Industry-Government Agreement on Core Capacities" is still a valid basis for business in the light of imminent cuts is uncertain. Still too many areas are considered as national core capacities, and little attention is paid to the wider spectrum of capacities at European level.

2.3 Italy

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	1,429.48	1,485.38	1,546.18	1,567.85	1,520.87	1,548.32	
GDP per capita, euro tsd.	24.39	25.20	26.04	26.20	25.24	25.58	
Gross public debt, euro bn.	1,512.80	1,584.10	1,602.10	1,666.50	1,763.60	1,841.60	
Gross public debt (% of GDP.)	105.83	106.65	103.62	106.29	115.96	118.94	
Net lending (+) or net borrowing (-), euro bn.	-61.90	-49.92	-23.52	-42.69	-80.86	-77.53	
Net lending (+) or net borrowing (-), % of GDP	-4.33	-3.36	-1.52	-2.72	-5.32	-5.01	
Defense budget, euro bn.	14.00	12.12	14.44	16.40	15.40	15.50	
Defense budget, % of GDP	0.98	0.82	0.93	1.05	1.01	1.00	
Military personnel	Armed forces	191,875	191,152	191,152	186,049	185,016	185,235
	Gendarmerie	110,000	110,000	110,000	110,000	110,000	110,000

2.3.1 Impact of the Financial Crisis on the Defence Budget

The Italian government faces a budget deficit of over 5% of GDP and an outstanding national debt of 110% of GDP. In late July 2010, Finance Minister Tremonti issued a €25bn savings programme over the period 2011-12, which included a 10% cut in each Ministry's budget.

Defence spending fell by 4.5% in 2009. In 2010, the defence budget amounted to €17.6bn, which corresponds to 1.1% of GDP. For 2011, the MoD has requested €20.55bn, which represents a 0.9% increase from 2010, with the core defence budget of €14.3bn up by 0.5%.²⁷ It remains unclear from open sources, what amount of funding has been adopted for 2011, however.²⁸

The opaque nature of data on Italy's military spending obscures the true picture of defence expenditure.²⁹ In 2009, the budget of the Ministry of Economic Development (MED) contained an additional €888m for defence procurement and another €400m for R&D not officially accounted for under the defence budget.

In light of Tremonti's savings agenda, the Italian MoD is currently risking a reduction in end-strength of the armed forces and their military readiness in order to be able to pay incompressible wages and prioritize ongoing modernization efforts.³⁰

2.3.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

In 2004, the Chief of Defence's *Strategic Concept* laid a road map for the transformation of the Italian armed forces until 2019. The overall goal of the reforms is to increase force-projection capacities of troops able to address complex scenarios, ranging from stabilisation, post-conflict reconstruction operations and humanitarian intervention to high-intensity conflict. This is pursued in order to improve capacities for participation in multilateral missions abroad and to contribute simultaneously to EU and NATO initiatives.³¹

Force Structure and Personnel

²⁷ Andy Nativi, 'Holding On: Despite its strained military budget, Italy resists modernization cuts', *Aviation Week & Space Technology*, 13.12.2010.

²⁸ Parlamento Italiano, *Bilancio die previsione dello Stato per l'anno finanziario 2011 e per il triennio 2011-2013*, Legge 13.dicembre 2010, n. 221, Article 11.

²⁹ Istituto Affari Internazionali, May 2010.

³⁰ Tom Kington, 'Training Cuts Could Hurt Italian Readiness', *Defense News*, 29.11.2010.

³¹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, London, 2008, p.50.

In 2010, end-strength of the armed forces was at 179,000 troops.³² They are planned to be down-sized to 141,000 by 2012. Expected savings from the planned cuts in personnel are around €2.5bn.³³ The sustainably deployable Italian full-spectrum force to be developed will consist of three light, three medium and three heavy brigades, one airmobile brigade and one special operations forces unit to be eventually able to deploy up to 13,000 soldiers.³⁴ The professionalization of the force, the modernization of equipment and the establishment of joint structures are three key-aspects of ongoing reform efforts.

Conscription was abolished in 2005. The internal breakdown of the defence budget has remained unbalanced following the end of conscription, which saw a dramatic increase in personnel costs. The Ministry of Defence has a target that 50% of its budget be allocated to personnel costs, with 25% allocated to procurement and another 25% to running and operational outlays. However, in 2009 personnel expenditure accounted for 67% of the budget, procurement 20% and running costs just 13%.³⁵ Personnel costs continue to take up the lion's share of spending with about 70% of the defence budget in 2011. In light of this imbalance, the government has called for proposals from an inter-ministerial commission on the future make-up of the Italian armed forces.³⁶

Funds for operations and maintenance went down by 29% between 2008 and 2009 and were at €1.76bn in 2010, which corresponds to a further drop of 7% from 2009. Additional cuts of €100m in the O&M budget were made in the 2011.³⁷ Keeping equipment and training on an adequate level has thus proven particularly problematic for the Italian armed forces.³⁸ Training funds have been cut by dramatic 69% since 2006. Then at €186.6m, spending on training is planned to be €58.5m in 2011.³⁹ Some help for training is provided through additional funds granted by parliament for pre-deployment training for overseas missions in Lebanon and Afghanistan. That funding does not benefit most Air Force pilots and naval crews not involved in missions, however.⁴⁰ To cope with reduced flying hours, the Air Force has turned increasingly to flight simulation, i.a. with its newly delivered C-27 J full flight simulator. The reduction in the operational budget and the land-based focus of current missions thus particularly affect the Italian Air Force and Navy.⁴¹

Equipment and Procurement

Equipment priorities that have been at the centre of the past reform process include fighter aircraft, multi-role frigates, air-defence frigates, NH 90 medium transport helicopters, MEADS air-defence systems, air-to-air missiles, support vehicles, satellite-based communications and UAVs.⁴²

Some major capability cuts are planned, however, such as the allocation for the tranche 3B of the Eurofighter (25 Typhoons) to achieve savings of about €2bn⁴³ and the buy of four FREMM frigates from France. The biggest and most controversial programme in 2011 is the Joint Strike Fighter. Italy is going to finish paying for its involvement in the development phase of the programme in 2012, but the number and type of F-35 to procure is not yet determined. The initial target was 131 units.⁴⁴

³² Manovra di Bilancio (2011-2013), June 2010.

³³ Istituto Affari Internazionali, Mai 2010.

³⁴ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, London, 2008, p.50.

³⁵ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 114.

³⁶ *Defense News*, 24.10.2009.

³⁷ *Defense News*, 02.08.2010.

³⁸ *Defense News*, 07.06.2010.

³⁹ Tom Kington, 'Training Cuts Could Hurt Italian Readiness', *Defense News*, 29.11.2010.

⁴⁰ *Ibid.*

⁴¹ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 115.

⁴² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.51.

⁴³ David Rising, 'Germany moves ahead with major restructuring of military to meet new threats, save money', *Associated Press*, 26.10.2010.

⁴⁴ Andy Nativi, 'Holding On: Despite its strained military budget, Italy resists modernization cuts', *Aviation Week & Space Technology*, 13.12.2010.

Despite these planned cuts, some major procurement programmes survive. The 2011 budget request contains funding for a long-sought search-and-rescue (SAR) and combat search-and-rescue (CSAR) helicopter initiative, the development of a laser-based infrared countermeasures system (DIRCM) to safeguard aircraft from infrared-guided missiles and for which a national solution will be developed by Elettronica and Elbit allegedly due to difficulties in getting export approval from the US for an equivalent system.⁴⁵ A further priority lies with rotary-wing programmes, with the army continuing to fund procurement of 16 CH-47Fs to replace its fleet of CH-47 Cs in service since 1973 and starting a new round of combat helicopter upgrades (AW 129 Mangusta). The Air Force is beginning two programs with procurement of AW 101 CSAR and AW 139 SAR helos. NH 90 also remains a major budget item, as much as the army procurement of Textron AAI Shadow tactical unmanned aircraft.⁴⁶

Funds for investment in 2011 clearly rise. They amount to €3.4bn, an extra €266m compared to the €3.2bn of 2010.⁴⁷ Research and development will continue to be funded for portions of the Typhoon, most of the space programmes, the procurement of Navy and Air Force AW 101 helicopters and the M-346 Master advanced jet trainer.

2.3.3 Level of Ambition and International Engagement

Total spending on international missions in the first six months of 2009 was more than €700m, with the largest outlays going to operations in Afghanistan (€242m), Lebanon (€192m) and the Balkans (€114m). Italian forces are also deployed in other operations including *Active Endeavour*, the NATO training mission in Iraq, and EU-led operations in Georgia and off the Somali coast.⁴⁸ In 2010, Italy's international engagement had to be adjusted in light of financial pressures. The available yearly budget for overseas missions consisted in €1.35bn covering overseas missions as well as development aid. The contribution to Italy's participation in Afghanistan as part of the ISAF mission was increased from €310m to €364m in 2010, but Italy's contribution in Lebanon, in the Balkans, Bosnia, at the Horn of Africa, as well as for the training of Iraqi security forces were significantly reduced by the end of the year.

2.3.4 Pooling and Sharing Options

Beyond the creation of the Franco-Italian Brigade in Spring 2010 and the hope to strengthen national defence industry through European armaments cooperation (cooperation with London on a MALE-UAV), Rome has not yet signalled particular interest in furthering European cooperation out of financial motivations. Defence Undersecretary Guido Corsetto expressed concerns to see Italy excluded from cooperation with the UK since the declarations on Franco-British cooperation on Defence on MALE-UAVs in November 2010.⁴⁹

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ BBC, 'Italian Defence Minister unable to fund 'new industrial programmes'', 23.10.2010.

⁴⁸ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 114.

⁴⁹ Interview with Guido Corsetto, Italian Defence Undersecretary, *Defense News*, 13.12.2010.

2.3.5 Defence Industry

Critics of argue that because money provided by the MED is only ever made available for the purchase of domestic equipment, around 40% of the armed forces' investment budget is not subject to open tenders and represents a de facto national subsidy to national industry.⁵⁰

2.4 Poland⁵¹

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	244.42	272.09	311.00	363.15	310.48	354.71	
GDP per capita, euro tsd.	6.40	7.14	8.16	9.53	8.14	9.29	
Gross public debt, euro bn.	120.00	132.10	147.30	144.70	166.70	207.70	
Gross public debt (% of GDP.)	49.10	48.55	47.36	39.85	53.69	58.56	
Net lending (+) or net borrowing (-), euro bn.	-9.96	-9.88	-5.85	-13.34	-22.49	-28.18	
Net lending (+) or net borrowing (-), % of GDP	-4.07	-3.63	-1.88	-3.67	-7.24	-7.95	
Defense budget, euro bn.	4.27	4.62	5.33	6.36	6.20	6.47	
Defense budget, % of GDP	1.75	1.70	1.71	1.75	2.00	1.82	
Military personnel	Armed forces	141,500	141,500	141,500	127,266	121,808	100,000
	Gendarmerie	21,400	21,400	21,400	21,400	21,400	n.a.

2.4.1 General Defence Policy Outlook

The shift resulting from being firmly anchored in the Euro-Atlantic security system with Poland's accession to NATO in 1999 was reflected by a deep transformation of Polish armed forces, which for most of the last 20 years have been struggling to meet NATO political, organizational and technical standards. In 2007, a National Security Strategy was adopted, outlining the major tasks of the armed forces as being collective defence, international crisis management and support for civilian authorities as well as the transformation into an all-volunteer force by 2012.⁵² The gradual implementation of those goals was enabled thanks to a stable defence budget, which –according to domestic legal provisions, in force since 2002– each year must equal to 1,95% of GDP. A new Strategic Defence Review updating the last one undertaken between 2004-2006 was finished by the end of January 2011. The SDR will identify future capability requirements for the Polish armed forces and propose lines for its further transformation.

Besides asymmetric threats, such as international terrorism, organised crime and environmental challenges, the National Security Strategy identifies energy dependence as the greatest external threat to national security. Large-scale armed conflict is considered unlikely. Regional and local conflicts such as in the South Caucasus and the Balkans that may require Polish involvement, however, are considered more likely than in the past.⁵³

⁵⁰ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 114.

⁵¹ This section is based on Marcin Terlikowski, 'Chapter Four: Poland', in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

⁵² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.57.

⁵³ Ibid.

2.4.2 Impact of the Financial Crisis on the Defence Budget

The impact of the financial crisis on the Polish economy in 2008 forced the MoD to make severe cuts by approximately 20% in the 2009 defence budget, which decreased from €6.3bn to €5.8bn. The statutory commitment to hold spending at 1.95% of GDP de facto fell to 1.85% of GDP in 2009.⁵⁴ Cuts concentrated on investment expenses, reduced by about 50%. Most of the long-term procurement contracts were reviewed with the aim to reduce, delay or suspend payments (and deliveries). Only vital deliveries to Polish ISAF-contingents deployed were not significantly curtailed. Furthermore, maintenance and training costs were reduced by limiting administrative expenses and suspending field exercises.

The Polish economy recovered relatively well in 2009 and 2010, which allowed defence cuts to be stopped. The 2010 budget has not been reduced and was implemented without difficulties, although it did not yet allow the MoD to boost investment (also due to the need to cover contracts renegotiated in 2009). The defence budget for 2011 rose by unexpected 7.1% to €6.8bn in comparison to the 2010 budget (€460m more than in 2010).⁵⁵ Investments both in equipment and infrastructure will increase by 16%. The procurement budget should also rise by 12% to €1.23bn.⁵⁶ No particular savings plans are currently being drawn up, other than a further rationalization of expenses through organizational and administrative reforms.

Still, the government has recently proposed to lift the obligation to spend 1.95% of GDP on defence annually, and to stretch it over a six-year period. This would allow for more flexibility in defence budgeting and make defence expenses more dependent on the overall condition of public finances.

2.4.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Force Structure and Personnel

Currently, Polish armed forces are continuing a deep transformation, involving three core elements: professionalization, administrative reforms and technical modernization. The professionalization, decided upon only in 2008, suspended compulsory draft in favour of a completely professional armed force, which has been subsequently reduced by 30% to approximately 100,000 troops. The proportion of professional soldiers has risen by 25%. A National Reserve Forces (NRF) is being established by the end of 2011 with a planned end-strength of 20,000 personnel.⁵⁷ The numbers of volunteers fit for the job have been too low to achieve this goal to date, however.⁵⁸

Administrative reforms, in turn, seek to rationalize the MoD and armed forces' organizational structure, maintenance and training systems. One key priority is to overhaul the ministry's spending structure. Almost 50% of last year's €6.52bn budget (some €3.25bn), were allocated for personnel expenses, while the remaining €3.21bn went for capital expenses including procurement. The MoD wants to increase the share dedicated to modernization in 2011. The number of jobs in the MoD will be cut by around 10%, and additional cuts in the armed forces are foreseen by 2012.⁵⁹ The three services, civilian guard units and logistics will be most affected by cuts.⁶⁰ A further key development is the reorganization of the military procurement system, with a new arms procurement agency ('Armament Inspectorate') taking over responsibility for contracting military investments from 2011 onward.

Equipment and Procurement

⁵⁴ International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 116.

⁵⁵ Polish Ministry of National Defence, Budgetary Department, *Basic Information on the MoND Budget for 2011*, Warsaw, March 2011.

⁵⁶ Grzegorz Holdanowicz, 'Polish defence budget set for 10-year high', *Jane's Defence Weekly*, 15.09.2010.

⁵⁷ BBC, 'Poland's new national reserve force has 9.300 applicants—Defence Ministry', 23.11.2010.

⁵⁸ BBC, 'Polish army struggles to recruit volunteers for new national reserve force', 20.10.2010.

⁵⁹ BBC, 'Polish Defence Ministry plans job cuts among civilian staff in Armed Forces', 10.01.2011.

⁶⁰ BBC, 'Polish Defence Ministry plans job cuts among civilian staff in Armed Forces', 10.01.2011.

Modernization is aimed at replacing aging post-Soviet equipment and increasing the level of armed forces' interoperability, deployability and sustainability. The 2001 White Paper defined C3I and air defence as central capability priorities, as well as basic combat equipment, transport, combat support and NBC protection. Through recent experience in Afghanistan, force protection, including MRAPs, tactical lift, helicopters, surveillance and reconnaissance UAVs and precision-strike capabilities have also become preeminent priorities.⁶¹

The Polish government approved a new four-year armed-forces development for 2009–12 and a longer-term €15.4bn investment plan to run to 2018 and listing 14 modernization programmes. It involves a number of relatively big procurements with some of them to be accomplished in only three/four years – e.g. a purchase of 16 fighter-jet trainers, 26 support helicopters and 48 Patria/'Rosomak' AMVs. Poland also wants to replace its helicopter fleet by 2018 and intends to order 26 helicopters (Sikorsky's Black Hawk S-70i or the NH 90 by NH industries). Advanced training systems to serve as a lead-in for the country's F-16 fighter fleet⁶² as well as a medium-range air defence system worth approximately €3.62 bn⁶³ are topping the list of procurement priorities to be implemented due to the increase of the procurement budget by 12% in 2011.⁶⁴

The long-term investment plan foresees very ambitious procurements, which will be financed after 2018 – e.g., new aerial and missile defence system or comprehensive improvement of C4ISR capabilities. The total value of all those procurements is estimated to equal around €35bn. In the same period large numbers of old equipment should be withdrawn (e.g. dozens of Sukhoi Su-22 bombers or hundreds of T-72 tanks), although in case new procurements were delayed, life-extensions are likely. These goals assume stable financing of the defence budget and the preservation of the 1.95% of GDP quota spent on defence, however.

2.4.4 Level of Ambition and International Engagement

Poland's precise level of ambition with regard to deployment is classified. It is believed to include deployment based on different levels of mission intensity, sustainability, requirements and concurrency. Military leaders have argued that a deployment of 4,000 troops is the limit of Poland's current sustainable capacity.⁶⁵

In Afghanistan, Poland keeps a 2,600 strong contingent. In 2010 the MoD set aside €330m for its operations including €240m for the purchase of equipment and €95.6m for personnel. The start for the withdrawal from Afghanistan is foreseen by 2012.⁶⁶ As a consequence of the financial bottleneck, Poland shifted its troops from various military missions to increase contributions in Afghanistan. Poland has withdrawn its forces from international operations in Lebanon (UNIFIL), Syria (UNDOF) and Chad (MINURCAT).⁶⁷ As part of the EU Althea mission, 215 Polish soldiers and army employees serve but this number will be reduced to 47 due to a change in the mission and the end of the mission in 2010. Nineteen Polish soldiers serve as part of NATO's training mission in Iraq, whilst 11 are observers in the EU mission in Georgia. Individual observers are in Congo, Lebanon, Sudan, and the Ivory Coast. Polish ships take part in the Active Endeavour mission on the Mediterranean and between April and August 2010 Polish pilots took part for the third time in the NATO air policing mission protecting the Baltic states.⁶⁸

2.4.5 Pooling and Sharing Options

⁶¹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (fn. 2), p.58.

⁶² Robert Wall, 'Poland Hikes Defense Budget, Seeks New Trainer', *Aerospace Daily and Defense Report*, Vol. 235: 49, 09.09.2010.

⁶³ Jaroslaw Adamowski, 'Poland's Defense Budget rises, with emphasis on modernization', *Defense News*, 20.09.2010.

⁶⁴ Grzegorz Holdanowicz, 'Polish defence budget set for 10-year high', *Jane's Defence Weekly*, 15.09.2010.

⁶⁵ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (fn. 2), p.57.

⁶⁶ Jaroslaw Adamowski, 'Poland's defense budget Rises, With Emphasis on Modernization', *Defense News*, 20.09.2010.

⁶⁷ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p. 116.

⁶⁸ BBC, 'More than 3,000 Polish soldiers serve on foreign missions', 03.12.2010.

On the issue of pooling and sharing, Warsaw has been engaged in a close dialog with Berlin and Paris as part of the Weimar Triangle since 2010. Poland, Germany and France sent a letter to the EU High Representative Lady Ashton in mid-December calling for the improvement of capacities to plan and to conduct operations and missions, to strengthen cooperation among their militaries and to create synergies in times of scarce resources, taking due care for complementarity with national and NATO planning capacities (see Part I, section 2.3. for further details). Germany, France and Poland will enhance their cooperation within the Battlegroup which they are to provide in the first half of 2013.⁶⁹

2.4.6 Defence Industry

The Polish defence sector is dominated by state-controlled companies: a large holding called "Bumar" (incorporating over 27 different corporations) and a few separate but cooperating firms (e.g. WZM Siemianowice – the manufacturer of Patria/Rosomak' AMV), which are active mostly in the land systems domain. An overarching, governmental strategy for those firms was adopted prior to the crisis for the period 2007-2012 and involves further consolidation (within the Bumar group), recapitalization and concentration on core business (e.g. track and wheeled armoured platforms, munitions, opto-electronics, radars). So far, the strategy hasn't been updated due to the crisis and is being implemented (in line with it, e.g. Bumar has recently incorporated 7 new companies).

2.5 Spain

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	908.79	984.28	1,053.54	1,088.12	1,053.91	1,051.33	
GDP per capita, euro tsd.	20.94	22.34	23.48	23.87	22.95	22.81	
Gross public debt, euro bn.	391.10	389.50	380.70	433.00	560.60	676.90	
Gross public debt (% of GDP.)	43.04	39.57	36.14	39.79	53.19	64.39	
Net lending (+) or net borrowing (-), euro bn.	8.76	19.85	20.07	-45.19	-117.31	-97.85	
Net lending (+) or net borrowing (-), % of GDP	0.96	2.02	1.90	-4.15	-11.13	-9.31	
Defense budget, euro bn.	7.12	7.12	7.69	8.14	7.84	n.a.	
Defense budget, % of GDP	0.78	0.72	0.73	0.75	0.74	n.a.	
Military personnel	Armed forces	147,255	147,255	147,255	149,150	149,150	128,013
	Gendarmerie	73,360	73,360	73,360	73,360	73,360	80,210

2.5.1 Impact of the Financial Crisis on the Defence Budget

In 2009, the Spanish defence budget was cut for the first time in ten years: The budget of €8.24bn was 3% lower than in 2008. The total defence spending including funds for civilian employees, secret services, research institutes and defence procurement earmarked in the budget of the Ministry for Industry, Tourism and Trade added up to €11bn. Funds for procurement in the budget were at €1.15bn.

In 2010, the core defence budget was €7.7bn, a reduction by 6.2% to 2009. Total defence spending was €10.11bn and funds for procurement were down at €950m. In 2010, the Spanish government decided on two savings package adding up to €11.5bn.⁷⁰ The savings effort transferred to the Ministry of Defence can be considered relatively light, currently amounting to €141m. Savings will mostly be achieved through reductions on the investment and procurement budget up until 2014.

⁶⁹ Gabriela Baczyńska, 'France, Germany, Poland urge closer EU defence ties', *Reuters News*, 13.12.2010.

⁷⁰ Government of Spain, Ministry of Economy and Finance, *General State Budgets 2011*, based on Law 39/2010 on General State Budgets for 2011, Madrid, p. 5.

In 2011, Spain is cutting its defence budget for the third consecutive year, resulting in a 13.3 % reduction since 2009.⁷¹ The defence budget for 2011 stands a below €7 billion, which represents a cut of 7% from 2010.⁷² The total defence budget for 2011 amounts to €8bn, including funds for civilian administration and around €771m for procurement, instead of the €9.33bn initially planned for in the draft budget.⁷³

2.5.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Spanish policymakers embarked on defence reform from 1998. The abolition of conscription took effect in 2001 and was followed by a strong force contraction until 2004. The blueprint for reform is the 2003 Strategic Defence Review, which has broadly been confirmed in the Zapatero government's 2004 Defence Directive. International commitments and enhancing the Spanish force projection capacity are the key drivers for structural reforms.⁷⁴

Force Structure and Personnel

The reform agenda of the armed forces is pursued through a reduction in the number of units and a re-equipment drive. The focus is on enhancing mobility and projection, sustainability, readiness, survivability, command and control, ISTAR, interoperability and 'jointness' between the services.⁷⁵ The end-strength of the Spanish armed forces currently lies at 128,013 troops. Civilian jobs amount to 26,800 employees and the Civil Guard is 73,000 soldiers strong. Although the MoD argued that the cuts could be borne by administration rather than by the armed forces,⁷⁶ cuts in soldiers' pay of up to 5% have already been enacted and cuts of up to 6,000 jobs with the armed forces are planned.

Equipment and Procurement

Both the government of Jose Maria Aznar and José Luis Rodrigues Zapatero initiated major re-equipment programmes with the goal of modernizing and transforming the Spanish armed forces by 2015. Equipment priorities include fighter aircraft, A-400M transport planes, tactical transport planes, air-to-air missiles, *Leopard 2 E* main battle tanks, armoured vehicles, future soldier systems, frigates, submarines, offshore patrol vessels, strategic projection vessels, medium transport helicopters, attack helicopters, UAVs and dual-use observation satellites.⁷⁷

The main cuts will take place in future procurement and modernisation efforts. Funds for new helicopters, transport planes, fighters, tanks, frigates or submarines had 39% fewer funding in 2010 (€204 millions) than in 2009 (€333 millions). The funds dedicated to general modernisation of the armed forces –without including major programmes—suffer a cutback from €319 million in 2010 to €283 million in 2011.⁷⁸ The next two budgets for modernization efforts will equally be reduced: €184 million in 2012 and €162 million for 2013. A recovery to old rates of investment is only expected from 2014 onwards. The modernization programmes hardest hit are that of the Leopard 2 tank and of the EF-2000 fighter jet. Funds are kept up for modern ground attack helicopters (Tiger), an urgent requirement in Afghanistan, where Spanish troops are sharing those of the Italians.⁷⁹ International programmes to keep up commitments and benefit from expected technology transfer will be somewhat preserved from cuts.

2.5.3 Level of Ambition and International Engagement

⁷¹ David Rising, 'Germany moves ahead with major restructuring of military to meet new threats, save money', *Associated Press*, 26.10.2010.

⁷² David Ing, 'Spain faces third defence budget cut in a row', *Jane's Defence Weekly*, 06.10.2010.

⁷³ Ministry of Economy and Finance, *General State Budgets 2011*, based on Law 39/2010 on General State Budgets for 2011, Madrid, p. 18-19

⁷⁴ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 62.

⁷⁵ Ibid.

⁷⁶ EuroPolitics, 'Recent defence spending plans announced by EU member states', 30.11.2010.

⁷⁷ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 62.

⁷⁸ BBC, 'Spain's Defence Ministry hit by 40% cut in modernization budget', 06.10.2010.

⁷⁹ Ibid.

The 2003 defence review defined the level of ambition for the Spanish army as indefinitely sustaining a deployment for the full spectrum of crisis-response missions of up to two brigades with the necessary combat support, as well as maintaining a division headquarters to lead a multinational force should the brigades be deployed to a single theatre.⁸⁰ Spain supports the EU-Battlegroup concept and would like to see their more flexible use in the future. Madrid favors a closer coordination with NATO and UN capacities and a further development of civil-military capabilities. No reductions in the level of ambition are planned or discussed. Spain seeks to maintain its engagement in Afghanistan and ended engagement in the Balkans out of a reappraisal of the security situation and in order to free capacities for other engagements.

2.5.4 Pooling and Sharing Options

Despite the financial pressure on the armed forces, the Spanish government is not actively engaging with the idea of pooling and sharing. Spain only follows the EATC-initiative as observer. Spain affirms it wants to maintain independent full-spectrum capabilities. Accordingly, the Ghent-Process has not been engaged by Spain to date

2.5.5 Defence Industry

The MoD announced the restructuring of the national defence industry: SEPI—the holding for firms with public participation—will be slimmed down at managerial level. The national shipbuilding champion Navantia will have to reduce running costs by 30% over the coming five years. However, the Spanish government seeks to enhance its support for exports to alleviate pressure on the domestic defence industry.

2.6 Sweden

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	298.35	318.17	337.94	334.23	292.68	347.74	
GDP per capita, euro tsd.	33.04	35.04	36.94	36.11	31.33	37.15	
Gross public debt, euro bn.	148.00	146.50	132.40	112.90	126.90	143.60	
Gross public debt (% of GDP.)	49.61	46.04	39.18	33.78	43.36	41.30	
Net lending (+) or net borrowing (-), euro bn.	6.49	7.44	12.04	7.34	-2.69	-3.14	
Net lending (+) or net borrowing (-), % of GDP	2.18	2.34	3.56	2.20	-0.92	-0.90	
Defense budget, euro bn.	4.74	4.60	4.94	4.12	4.03	4.14	
Defense budget, % of GDP	1.59	1.45	1.46	1.23	1.38	1.19	
Military personnel	Armed forces	27,600	27,600	27,600	24,000	16,900	13,050
	Gendarmerie	600	600	600	600	600	800

2.6.1 General Defence Policy Outlook

Sweden's threat assessment focuses on regional conflicts and instability, organized crime, international crime and WMD proliferation, which are considered security challenges to be met only through international cooperation. A direct attack on Swedish territory is considered unlikely in the next ten years. Sweden is not a NATO member, which enhances the significance of Stockholm's commitment to the EU.⁸¹ Although the government's fiscal position deteriorated during 2009, Sweden pushed on with

⁸⁰ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 62.

⁸¹ Op.cit., p. 70.

its long-standing military re-organization programme that started in 1999. The steady decline in defence expenditures witnessed since that time seems to have been halted due to the Georgia-incidents in 2008.⁸² In an abrupt reversal of its previous declarations, in March 2009 the government presented a revised reform schedule, halting its plans to further shrink the army and offering a new focus on strengthening the country's rapid-response components. The proposal also revoked plans calling for the closure of bases and a reduction in the tank inventory, and outlined initiatives to strengthen capacities in areas that had been ignored over recent years, such as the Baltic Sea and the island of Gotland, which will receive additional air, sea and land assets including a unit of *Leopard 2* tanks.⁸³

2.6.2 Impact of the Financial Crisis on the Defence Budget

Sweden's budgetary situation has comparatively suffered little from the financial crisis, and the defence budget has consequently been little affected. Defence spending is kept flat for 2011, remaining at €4.43bn as in 2010. However, to guarantee that key programmes needed for the armed forces' modernization continue, the government has agreed to supplementary budget allocations de facto increasing the defence budget to €4.8bn per year over the period 2010-2015. The Swedish armed forces will see their operational budget increased from €2.2bn in 2010 to €2.37bn in 2011. Spending on peacekeeping and international operations will be reduced from €281m in 2010 to €255m in 2011. The procurement budget will be down from €1.2bn in 2010 to €1bn in 2011.⁸⁴ The government wants to push ahead with reforms including the rationalization of support services and the reorganization of the armed forces' operational units around rapid-response modular structures.⁸⁵ The introduction of a defence support organization is expected to save €222m by 2012.⁸⁶

2.6.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Reforms of the Swedish armed forces have been ongoing since 1999. The overarching goal has been to enhance the expeditionary character of the armed forces for better force projection as part of international crisis-management missions.⁸⁷ In July 2010, Sweden suspended conscription, which had been part of the force generation model for 109 years.

Force Structure and Personnel

In 2011, the Swedish government will finalize the restructuring of its land forces around modular units inspired by the structure of the Nordic Battlegroup. The army core operating units will be reorganized so as to create up to six Modular Battle Units (MBU) and will assemble around tactical operations battalion equipped and resourced from tank, air defence, engineer, logistical and intelligence units. The Army's heavy division will be organized outside of these maneuver battalions. The first MBUs are expected to be trained, equipped and ready for deployment by 2012. Air and special units consisting of combat and transport helicopters, Gripen NG-combat aircraft, C-130 Super Hercules planes and Special Forces units will be attached to the MBUs.⁸⁸

A Rapid Mobilization and Deployment Reserve Force, consisting of four battalions, will be created, boosting the number of deployable mobile battalions at the military's disposal from three to eight, while the Home Guard will be fixed at 22,000 personnel, of which 17,000 will receive improved training and equipment and be under a service obligation even in peacetime. Greater emphasis was placed on

⁸² International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 116-7.

⁸³ Ibid.

⁸⁴ Gerard O'Dwyer, 'Sweden seeks greater cost controls amid flat budget for 2011', *Defense News*, 25.10.2010.

⁸⁵ Ibid.

⁸⁶ Ibid.

⁸⁷ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 70.

⁸⁸ Gerard O'Dwyer, 'Sweden to reshape army with modular structure', *Defense News*, 25.10.2010.

deployability, and in future the entire 50,000-strong force will be available within one week 'to serve where and when necessary', compared to a year at present.⁸⁹

Equipment and Procurement

Contrary to previous suggestions, most of the armed forces' major weapons systems will be retained: the number of *Gripen C/D* aircraft will be fixed at 100; the number of all MBU, artillery and air-defence units will be unchanged; new helicopters and protected vehicles will be procured; and the navy will retain its submarines and fleet of seven corvettes (including five *Visby*-class ships).⁹⁰

A range of procurements have been launched in the pursuit of the modularization, notably in transport, command and control. Equipment priorities include armoured vehicles, corvettes, software-defined radios, fighter aircraft and air-to-air missiles.⁹¹ Sweden as well as Norway have retained funding for all major programmes, while Danish and Finnish procurement has been delayed or reduced.⁹² Procurement planned in 2011 includes the acquisition of a medium-weight tactical and transport helicopter to support international units and the Nordic Battlegroup (UH60 Black Hawk). Other programmes include the purchase of the MBDA-Meteor radar guided long-range missile for the Gripen NG fighter jets needed for a larger regional role, including a higher level of surveillance and patrol in the Baltic Sea region;⁹³ wheeled armoured vehicles for the €248m Armored Modular Vehicle (AMV) project, a new signals intelligence ship and new next generation submarines, coupled with the midlife upgrade of the Navy's existing Gotland-class submarines, the single most costly programme at a cost of €1.2bn. In addition, the Swedish armed forces are acquiring 77 BD-Archer artillery systems, tactical UAVs and the Norwegian Protector weapon station, as well as developing a modernized version of JAS 39-C and D Gripens called 'Material Standard 20' to enter into service in 2018. The Army has ordered eight RQ-7 Shadow UAVs from AAI and modified by SAAB, which will be delivered in early 2011.⁹⁴

In Spring 2010, the Swedish Ministry of Defence commissioned a review to identify how its military organization might benefit from a centralized national defense support structure outsourcing non-core functions such as pilot training and equipment maintenance. Finland's experience in outsourcing its pilot-training is under scrutiny. The first segment of such support structure—an arms export agency—is already in place. In 2011, new outsourcing opportunities will be sought in Army, Navy and Air Force. The aim is to save €293.5m. A further move considered is the merger of the state materials procurement agency and other support units.⁹⁵

2.6.4 Level of Ambition and International Engagement

The Defence Bill from 2005-2007, entitled "Our Future Defence" defined the Swedish level of ambition as the capacity to be able to lead and participate in two large-scale international missions simultaneously, with each mission requiring the deployment of an entire battalion. Additionally, there should be the capacity for up to three smaller missions. This target of up to about 2,300 troops would amount to at least a doubling of current Swedish deployment.⁹⁶

In December 2010, the Afghanistan mandate for the 855 Swedish soldiers deployed in northern Afghanistan was extended beyond the scheduled start of withdrawal in 2013.⁹⁷ Sweden has decided to reduce its 500-strong force in 2012, with the minority center-right government setting a course to have

⁸⁹ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 116-7.

⁹⁰ *Ibid.*

⁹¹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 70.

⁹² Gerard O'Dwyer, 'Nordic procurement vs. the Downturn', *Defense News*, 06.09.2010.

⁹³ *Ibid.*

⁹⁴ Gerard O'Dwyer, 'Sweden seeks greater cost controls amid flat budget for 2011', *Defense News*, 25.10.2010.

⁹⁵ Gerard O'Dwyer, 'Nordic militaries to boost outsourcing', *Defense News*, 29.11.2010.

⁹⁶ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 70.

⁹⁷ 'Schweden Soldaten bleiben über 2013 hinaus', *Tagesanzeiger*, 16.12.2010.

all troops home in 2014.⁹⁸ The Swedish decision opened the door to a possible joint withdrawal strategy with Finland by 2014. Finnish troops form part of the same units and share facilities with Swedish forces, making a coordinated approach all the more functional. Finland has signaled interest in a coordinated exit-strategy, including troop reductions and ultimate withdrawal with Sweden and other Nordic states such as Denmark operating in Afghanistan.⁹⁹

2.6.5 Pooling and Sharing Options

Sweden has signed the Nordic Defence Cooperation (NORDEFECO) Memorandum of Understanding together with Denmark, Finland and Norway in 2009 in a bid to expand military and industrial cooperation in the region. The NORDEFECO MoU merges three cooperative frameworks previously in existence. Nordac was a framework established in the 1990s to allow for closer cooperation on acquisition. Nordcaps (1997) was a framework within which Nordic and Scandinavian countries were organizing peace support education and training for joint military peace support. Nordsup (2008) launched an effort to identify around 140 areas where cooperation among Nordic and Scandinavian states is possible to retain defence capabilities.¹⁰⁰

In June 2008, the defence ministers of Finland, Sweden and Norway issued a defence cooperation report in which a plan was sketched to increase Nordic cooperation on 140 items. In 2009, the Nordic countries pursued with the implementation of 40 items and Defence Ministers decided to merge existing tracks of cooperation into a single collaborative structure. By the end of 2009, one structure was to be formed by the merger of the Nordic Armaments Cooperation (NORDAC, begun in 1994), the Nordic Coordinated Arrangement for Military Peace Support (NORDCAPS, launched in 1997) and the Nordic Supportive Defence Structures (NORDSUP, started in 2008).¹⁰¹

Nordic cooperation has long-term objectives, including common weapons procurements and more commonality in military operations and equipment. Some key-cooperation projects include: the EU's Nordic Battle Group; joint development of the Sea Surveillance Cooperation Baltic Sea project; and the feasibility of improving the Nordic defence industry's capability through common weapon programs. Through joint training and exercising, the declared intention of participant nations has been to create the platforms needed to support a higher level of cooperation.¹⁰² In January 2010 an agreement among the air forces of Finland, Norway and Sweden was signed to increase the number of joint exercises in 2010 and strengthen the foundation for multinational fighter squadrons for regional air-policing duties. The agreement built on the Cross-Border Training Agreement from 2009, which promoted two-nation exercises. Sweden has also proposed putting helicopters or other military assets at the disposal of Danish, Norwegian, or Finnish crews for international missions.¹⁰³

The Nordic countries already made positive experience with pooling and sharing in the fields of common transports and common logistics.¹⁰⁴ In early December 2010, Germany and Sweden confirmed they would seek to start a process in which EU member states sought to undertake more joint responsibility for military matters.¹⁰⁵ The Nordic Defence cooperation effort is not designed to remain a closed shop, as cooperation talks have already been extended to the Baltic States and mutual interest in expanding cooperation with the UK, Germany and Poland has become evident.¹⁰⁶

2.6.6 Defence Industry

⁹⁸ Gerard O'Dwyer, 'Sweden, Finland May Coordinate Afghan Strategies', *Defense News*, 08.11.2010.

⁹⁹ Ibid.

¹⁰⁰ Nordic Cooperation—History and Background, www.nordefco.org, 23.03.2011.

¹⁰¹ Gerard O'Dwyer, 'Nordic Meeting Shows Progress – and Limits – of Defence Cooperation', *Defense News*, 18.05.2009.

¹⁰² Gerard O'Dwyer, 'Five Nordic nations boost air-defense cooperation', *Defense News*, 15.02.2010.

¹⁰³ Gerard O'Dwyer, 'Nordic Meeting Shows Progress – and Limits – of Defence Cooperation', *Defense News*, 18.05.2009.

¹⁰⁴ Gerard O'Dwyer, 'Nordic Countries to Pledge Common Defense', *Defense News*, 22.11.2010.

¹⁰⁵ Dave Graham, 'Germany plans to boost military cooperation', *Reuters News*, 09.12.2010.

¹⁰⁶ Gerard O'Dwyer, 'Nordic Countries to Pledge Common Defense', *Defense News*, 22.11.2010.

To help meet the capabilities priorities of the reform process, the Swedish government has encouraged industry to focus its research and development on generating cutting-edge technology in the area of networked-based command and control, aircraft, combat vehicle system, short-range combat systems and communications.¹⁰⁷

Sweden is keen to parade the Archer - a self-propelled system incorporating a fully

automated 155 mm/L52 howitzer and a Lemur remote-controlled weapon station -¹⁰⁸ as an instance of how Nordic states can collaborate constructively, productively and with cost awareness. Norway and Sweden ordered 48 Archer units at a combined cost of €1.77bn in Spring 2010. Both states seek to win the support and participation of other Northern states such as Finland, Denmark and the Baltic states as sign to their commitment to future regional defence cooperation and to ensure bigger production scale for exports.¹⁰⁹ Finland signalled its interest to join the Archer artillery project but financial consideration prevent it from any orders before 2012.¹¹⁰

2.7 United Kingdom¹¹¹

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	1,833.96	1,948.52	2,052.86	1,815.41	1,563.11	1,693.60
GDP per capita, euro tsd.	30.45	32.16	33.66	29.57	25.30	27.22
Gross public debt, euro bn.	778.00	859.50	851.80	791.20	1,069.30	1,322.50
Gross public debt (% of GDP.)	42.42	44.11	41.49	43.58	68.41	78.09
Net lending (+) or net borrowing (-), euro bn.	-62.94	-52.48	-56.00	-90.79	-177.45	-177.13
Net lending (+) or net borrowing (-), % of GDP	-3.43	-2.69	-2.73	-5.00	-11.35	-10.46
Defense budget, euro bn.	41.50	42.29	43.70	48.51	44.80	44.84
Defense budget, % of GDP	2.26	2.17	2.13	2.67	2.87	2.65
Military personnel Armed forces	205,890	216,890	191,003	180,527	160,280	175,690

2.7.1 General Defence Policy Outlook

The UK finds itself in the middle of a comprehensive defence review. On 19 October 2010 the UK published the results of its "Strategic Defence and Security Review" (SDSR). It follows the "National Security Strategy" published one day earlier. While the latter delivers a comprehensive risk assessment, the SDSR identifies resulting implications for a security and defence reform. While the UK has regularly adjusted its defence posture since the end of the Cold War in relation to real or perceived changes, this time it happens under extreme pressure from two sources. First, fiscal policy, the UK faces a dept of 70% of the UK GPD equalling £ 900 bill. Second, the military commitment in Afghanistan until 2015 has to be taken into account. Accordingly the British government is going to revise the SDSR after 2015.

While the NSS underlined such threats as International terrorism or Cyber-warfare, the SDSR concentrates on the military dimension. The SDSR made clear that the UK keeps its global aspiration level. However, it assumes that above a certain limited scale of operations (e.g. Sierra Leone), the UK is only likely to be involved in either type of warfare if it is part of an international coalition, usually led by the US. The potential scenarios vary from major inter-state warfare to fighting intra-state 'wars among the people'. Given the financial constraints some uncertainty rises over how the review will actually deliver an effectively balanced force structure, also more interoperable with key partners, while meeting

¹⁰⁷ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (fn. 2), p. 70.

¹⁰⁸ Gerard O'Dwyer, 'Finland may join neighbours in Archer', *Defense News*, 13.09.2010.

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

¹¹¹ This section is based on Alastair Cameron, 'Chapter One: The United Kingdom', in: Sophie C. Brune, Alastair Cameron, Jean-Pierre Maulny, Marcin Terlikowski, *Restructuring Europe's Armed Forces in Times of Austerity*, SWP-Working Paper No.8, November 2010.

uniquely national requirements (for example in Northern Ireland). a policy of over-specialisation in capabilities for sustained state building and counter-insurgency operations could also risk underinsurance against the exploitation of new technologies (for example, CBRN, cyber-terrorism and nanotechnology) by a wide range of potentially hostile state and non-state actors.

2.7.2 Impact of the Financial Crisis on the Defence Budget

The financial crisis hit a defence budget that was already under stress from a overcommitted defence procurement programme and growing strains from ongoing operations. It faces a debt of £36bn (€43bn) over the next decade. This excludes the potential costs of £20bn (€24bn) for the upgrade of submarine based trident nuclear weapon systems.

Hence, above all the SDSR had to introduce large cuts to the defence budget. However, while estimates suggested reductions up to 23% the defence budget will face cut of only about 8% between 2011 and 2014. The departmental spending limit for defence is at around GBP 38bn for 2010-2011 and at 37bn for 2011-2012 and 34bn for 2012-13, reaching a plateau at around that spending ceiling until 2015.¹¹² Compared to the shrinking other UK public budgets have to face, especially in social care and education, these cuts are less significant in the UK context. However, cuts may increase up to a 10% in real terms, possibly more once combat troops withdraw from Afghanistan from 2015 onwards. However, there are already signs that these cuts may not be sufficient because of unrealistic assumptions and wrong estimates. Loopholes of up to £ 20bn (€24bn) have been identified.

2.7.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Force Structure and Personnel

Armed Forces will be used more selectively, according to the British government. Generally, the UK envisages unilateral operations being the least probable scenario for future engagement. Hence, the UK focuses on increased interoperability, especially with its main partners, the US and France.

Moreover the SDSR lowers the level of ambition to:

- either one long-term stabilization operation, requiring an engagement on brigade level, including contributions from air force and navy, one non- enduring complex intervention with up to 2000 soldiers and one non- enduring simple intervention in parallel,
- or three non enduring operations if the UK is not already engaged in enduring operations elsewhere but the scale isn't defined.
- or with sufficient notice, a one off intervention involving 3 brigades. Hence the maximum size will be limited to 30.000 men including contributions from navy and air force. Operations of Iraq size (45 000) will no longer be possible.

Capabilities shall result from a restructuring the forces into the „future force 2020“. Five multi-role brigades each of about 6500 men with different levels of readiness will build the pool for force generation: One brigade for rapid reaction; the others for long-term stabilization operations. The UK will face a significant decrease of amphibious capabilities and maritime based power projection. Hence, London will not be able to conduct a Falkland type scenario independently.

All services face a serious downsizing by 17.000 servicemen to a final size of 163.000 in 2015. Moreover the Ministry of Defence will be restructured and face itself substantial cuts to its civilian staff – about 25.000.

¹¹² HM Treasury, Budget 2011, Return to an order of the House of Commons, London, March 2011, p. 48.

Equipment and Procurement

Equipment has been or will be taken out of service to save the costs for operation and maintenance. The aircraft carrier HMS Ark Royal has been taken out of service along with its fleet of Harrier jets. Squadrons of RAF Tornado jets will be maintained until they are gradually phased out with the full entry into service of Eurofighter Typhoons, along with the closure of several air force bases. The Army will lose about 100 tanks and 35% of its heavy artillery. Further cuts may be envisaged upon its return from Afghanistan in 2015.

The main procurement programmes have survived the SDSR, except the NIMROD surveillance aircraft. While programmes these represent the major burden on the budget, restrictive contractual arrangements make it more expensive to cancel the projects than to proceed with them. However numbers of pieces have been reduced and production timelines will be stretched. This is especially true for the two planned air craft carriers. The first one will enter into service in 2016 but be mothballed or sold, once the second arrives – foreseen for 2020. The second carrier will be redesigned with a catapult to host and let operate of conventional instead of vertical takeoff and landing aircrafts. Consequently the UK will change the purchase of the carrier based jets from the more expensive short-takeoff, vertical-landing (STOVL) variant to the conventional F-35 aircraft. Moreover the number of jets on the carriers will be reduced from 36 down to 12. As these will arrive only in 2020, the first carrier is expected to enter service without any fighter aircraft. The purchase of the last tranche of Eurofighter Typhoon – 88 jets is still uncertain. Decision will likely be taken with the consortium partners as a joint cancellation prevents the penalties for unilateral withdrawal. If procured, the total amount the aircrafts would come to as much as £1 billion per annum during some of the peak procurement years of 2012-16.

The navy will also have to wait longer for its new T26 Destroyers and is likely to get fewer of them. Also the replacement of nuclear second strike capability – the VANGUARD submarines - will be delayed until 2027. This also postpones the arrival of the financial burdens for the Trident replacement beyond the next general elections.

2.7.4 Changes in Defence cooperation

NSS and SDSR acknowledge the need for more international cooperation, due to the cuts in resources and capabilities. In fact the envisaged cuts can be termed historical. However, the UK continues to favour bilateral frameworks. Preferred partners are the US and France. Germany, Italy, the Netherlands and Spain are named less important.

Hence, the Franco-British defence accords signed in November 2010 are only a logical consequence: Paris and London face not only the same budget restraints but share role conceptions as global players. Moreover, they account for 50% of EU's defence spending and 70% of R&T

2.7.5 EU Pooling and Sharing Options

The Tory party leader and MP Cameron made clear that it will not invest in EU-based initiatives. It underlines its NATO- first policy. Concerning CSDP the new government views the member states' inconsistencies regarding security political interests and the will to project power as hampering factors for pooling and sharing. Creating interdependencies with these states would constrain rather than multiply political and military options.

EDA's performance is highly criticised its aims and ways of working are suspicious to the new Government. The Tory party has publicly discussed exit options for the UK's EDA membership. Lately Prime Minister Cameron states that he will give EDA two more years and then reconsider UK membership. Thus, the British government is reserved vis-à-vis initiatives such as Ghent or Weimar as it doesn't see the potential for an added value.

2.7.6 Defence Industry

The way in which the current fiscal crisis will affect British defence industry should broadly be similar to how it will affect its European neighbours. However, a number of mitigating factors exist in the UK, which point to much greater resilience of some in the British defence industrial sector to a downturn in the European market. British defence industry has by and large already had to restructure itself substantially and has driven down costs. It has done so in pursuing diversification strategies, through, for example, acquisitions within the expanding security sector where dual use civilian and military technologies can be reengineered for specific usages. Another approach to diversification has been to concentrate on service provision thanks to a 'through-life' approach - thereby shifting from a purely platform sales orientated model to a readiness and sustainment model which provides longer-term maintenance and servicing contracts to UK industry for existing platforms.

The prime manufacturer BAE Systems has already assured that it is less reliant on its UK customer base. It has for several years already developed greater diversity in its market structure. Through investments and buy-ins into domestic industry BAE systems perceives six countries as 'home-markets': the United States, the UK, Saudi Arabia, South Africa, Australia and Sweden. This provides the company with considerable financial resources and diversity. Moreover its UK navy shipyards and missile production sites are protected against short-term changes in demand by long-term contracts. Where this is not the case - like for the maintenance of HARRIERS BAE Systems has already downsized the jobs.

Beyond traditional unease regarding its likely impact on particular lines of production and revenue, industrial concerns lie primarily in the potential loss of engineering capabilities or skills within the UK industrial base should the UK Armed forces abandon entire capability areas or divest investment in research and development to such an extent that industry can no longer retain the qualified skills.

To reassure the defence industry and to increase planning reliability, the British government will issue an White Paper on Defence Industry and Technology Policy in 2011. This updates the previous government's Defence Industrial Strategy (DIS) from 2005. It will result from a consultation period with industry. The aim is to publicly discuss core industrial capabilities in relation to shrinking public spending. These core capabilities shall be protected outside the upcoming EU-procurement and -transfer Directives that are to be translated into national law by mid of 2011. One instrument could be further employment compacts. This would compromise the UK's proclaimed open markets policy. International armaments cooperation will be only an asset if the capability requirements are identical or technological contributions are complementary so that an increased value for money is possible. Like in other areas the UK will prefer a bilateral approach, especially with the US and with France.

3 CATEGORY B

3.1 Austria

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	243.59	256.95	272.01	283.09	274.32	281.50
GDP per capita, euro tsd.	29.61	31.08	32.77	33.96	32.80	33.56
Gross public debt, euro bn.	155.80	159.40	161.20	176.80	185.10	198.10
Gross public debt (% of GDP.)	63.96	62.04	59.26	62.45	67.48	70.37
Net lending (+) or net borrowing (-), euro bn.	-4.03	-3.85	-1.16	-1.33	-9.61	-12.02
Net lending (+) or net borrowing (-), % of GDP	-1.65	-1.50	-0.43	-0.47	-3.50	-4.27
Defense budget, euro bn.	1.81	1.81	2.63	2.03	2.11	2.12
Defense budget, % of GDP	0.74	0.70	0.97	0.72	0.77	0.75
Military personnel Armed forces (incl. conscripts)	39,900	39,900	39,600	39,600	34,900	27,300

3.1.1 General Defence Policy Outlook

Austria's aspirations in the realm of defence and security policy are limited by its neutrality and low defence spending. Paradoxically, Austria's threat assessment as laid out in the 2001 *Security and Defence Doctrine*, virtually rules out the risk of direct aggression and instead focuses on asymmetric and transnational risks.¹¹³

The Austrian armed forces have been undergoing a comprehensive reform programme since 2005, which was to be completed by 2010.¹¹⁴ Austria's military reform process started late compared to other Western European countries, as discussions of defence needs and future options were hindered by strong public adherence to the principle of neutrality.¹¹⁵ The European Union is the main cooperative framework through which Austria aims to make its contribution.¹¹⁶

3.1.2 Impact of the Financial Crisis: Budget and Procurement

In mid-2010 the Austrian Finance Minister called for defence-related savings of €530m until 2014 to contribute to national budgetary consolidation.¹¹⁷ Since 2009/2010 the budget for defence and for sports have been joined. In late March 2010, Defence Minister Darabos stated in an internal directive that the ongoing structural reforms of the armed forces were not enough to achieve the consolidation efforts called for by the finance minister. A new more drastic reform plan was adopted.

The Austrian government decided to reduce new debt to 2.6% of GDP and drew up consolidation plans amounting to about €2.4bn in 2011. The defence budget for 2011 is at €2.2bn, which represents a cut of €64m compared to 2010.¹¹⁸ To achieve savings imposed by government, the Austrian armed forces will have to implement cuts of -€80m in 2011, -€129.5m in 2012, -€152m in 2013 and -€169m in 2014.¹¹⁹ Cuts include the decommissioning of 500 tanks, additional cuts in personnel and the force-structure,

¹¹³ Bundesrat, Resolution by the Austrian Parliament: Security and Defence Doctrine, Vienna, 12. December 2001.

¹¹⁴ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 66.

¹¹⁵ Op.cit., p. 67.

¹¹⁶ Op.cit., p. 66.

¹¹⁷ 'Die arme Armee: Wo das Bundesheer abrüstet', *DIEP*, 16.06.2010.

¹¹⁸ Bundesministerium für Finanzen, *Bundesfinanzgesetz 2011: Gesamtüberblick*, Vienna, 2011, p.4, 69,

¹¹⁹ Op.cit., 8.

including a reduction of the number of brigades and an inquiry into costs and benefits of moving to an all-professional army.¹²⁰

3.1.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The chief aim of past reform efforts has been to improve the Austrian armed forces' capacity for international crisis-management as international and national missions are now given equal priority. Austria is currently considering ending conscription to move to an all-professional army and investigates seven different models inspired by similar ongoing reforms in Germany.¹²¹

Force Structure and Personnel

In light of current budgetary pressure, defence-related personnel will be cut by approximately 1,000 employees until 2014: 400 to 500 through pensioning, 400 employees will shift from the Defence Ministry to the Finance Ministry or the Ministry of the Interior. Open posts will not be re-filled. Seven caserns will be closed with expected savings of around €30m. Further savings of around €22m p.a. are expected from reduced training hours (incl. flight and transport) expectedly amounting to savings of up to €4bn by 2014.

The end-strength of the *Bundesheer* was at 27,300 soldiers in 2010 (incl. conscripts). The command structure was streamlined considerably: instead of six major military commands (land, air, international operations, special forces, logistics and support, command and control), there will only be two on the operational level: one in charge of logistics and support and one combining command of all international and national missions from all services.¹²² The number of brigades will further drop from five to four and battalions from 57 to 39.¹²³

Equipment and Procurement

Equipment priorities ensuing from the reform include fighter aircraft, armoured vehicles, command and communication and long-range radar, reconnaissance, logistics and transport.¹²⁴ Austria has initiated projects and relevant procurement in most of these areas (e.g. through the lease of fighter aircraft or the acquisition of used transport aircraft). An increase of the investment share of spending by about one-third of the budget was foreseen by initial reform efforts, which will not materialize in the current fiscal situation.¹²⁵

By 2009, 15 Typhoon aircraft were to be delivered that had been ordered under great controversy by the Haider/Schüssel coalition in 2002 whilst considering Austria's accession to NATO.¹²⁶ Promises made in 2002 that the core defence budget would not be affected by this acquisition were broken and forced the postponement of a number of key procurement programmes, including the deployment-relevant *Dingo* armoured patrol vehicles and the 40-year-old Saab jet trainer as well as the upgrading of 23 Agusta-Bell 212 helicopters.¹²⁷

Despite a revised reform agenda, deployment-relevant procurements, such as helicopters, the training-jets Saab 105, the equipment of the Battle-Group, trucks, or Pandur- light wheeled tanks will allegedly not be affected by cuts.¹²⁸

¹²⁰ Alexander Purger, 'Bundeswehr light nimmt Gestalt an', *Salzburger Nachrichten*, 14.12.2010.

¹²¹ Faymann in Österreich: "Schau mir deutsches Heeres-Modell an", *Austria Press Agentur*, 20.09.2010.

¹²² Bundesheerreformkommission, *ÖBH 2010—Die Realisierung*, Vienna, 2005, pp. 10-11, 13-14, 29.

¹²³ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 66.

¹²⁴ Op.cit., p. 33, 67.

¹²⁵ Op.cit., p. 66.

¹²⁶ Rudolf Gruber, 'Österreich sieht keinen Grund für eine waffenstarrende Armee', *Die Südschweiz*, 20.06.2010.

¹²⁷ International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 117-8.

¹²⁸ 'Wie Verteidigungsminister Darabos bis 2014 €530 Mio. einsparen will', *Austria Presse Agentur*, 13.12.2010.

Savings are in turn expected from re-selling conventional capabilities. In a bid to save €12m per year, defense minister Norbert Darabos announced in December 2010 that Austria will scrap or sell around 500 armoured vehicles and related defense systems from 2011 onwards—amounting to about 50% of Austria's vehicle fleet.¹²⁹ The 432 *Sauer*-armoured tracked vehicles as well as the 54 Tank Destroyers *Kürassier* are scheduled for retirement. Of the 114 *Leopard* 2A4 combat tanks, the Austrian army will sell 48, probably to Hungary. Of the 205 self-propelled howitzers M109, 100 will also be sold. Seventy M109 had been mothballed earlier. Reductions are also planned for grenade launchers, anti-aircraft guns und anti-aircraft missiles.¹³⁰

3.1.4 Level of Ambition and International Engagement

Maximum number of available troops lies at 1,000 soldiers. They will be composed of two battalions plus support forces for low- to medium- intensity missions, including rotation and for unlimited deployment. A Brigade on 30-days readiness for one year for high-intensity operations, including separation of forces is also planned as well as maintaining a classical peacekeeping deployment. An increased contribution to 5-day readiness missions currently limited to company level is also planned to be realized by 2012.¹³¹ Austria currently contributes troops to KFOR, EUFOR, Althea and UNDOF Golan Heights.¹³²

3.1.5 Pooling and Sharing Options

The option of joint air policing with Germany, Slovenia, Slovakia or Switzerland is a frequently debated, yet domestic discussions about pooling and sharing more capabilities are regularly thwarted by Austria's neutrality, which also hampers a clear stance with regard to the Ghent process. Joint training schemes are already well established with Germany, especially with regard to mountain infantry training, Eurofighter training (technicians and Pilots), flight control and aerial photo analysis.

3.2 Belgium

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	302.85	318.15	335.08	345.01	339.16	351.91
GDP per capita, euro tsd.	28.91	30.18	31.55	32.22	31.43	32.39
Gross public debt, euro bn.	279.10	280.40	282.10	309.10	326.30	347.10
Gross public debt (% of GDP.)	92.16	88.13	84.19	89.59	96.21	98.63
Net lending (+) or net borrowing (-), euro bn.	-8.43	0.57	-1.10	-4.62	-20.35	-17.02
Net lending (+) or net borrowing (-), % of GDP	-2.78	0.18	-0.33	-1.34	-6.00	-4.84
Defense budget, euro bn.	2.68	2.70	2.75	2.85	2.84	2.87
Defense budget, % of GDP	0.88	0.85	0.82	0.83	0.84	0.82
Military personnel Armed forces	36,900	36,950	39,690	39,690	38,844	38,452

¹²⁹ 'Austria to Cut in Half Armored Vehicle Fleet', *Defense News*, 11.12.2010.

¹³⁰ Alexander Purger, 'Bundeswehr light nimmt Gestalt an', *Salzburger Nachrichten*, 14.12.2010.

¹³¹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 33, 66.

¹³² 'Austrian Army to continue foreign missions despite budget cuts', *BBC*, 10.11.2010.

3.2.1 Impact of the Financial Crisis on the Defence Budget

As a consequence of the financial crisis, a savings plan was issued in 2009, which aims at cutting about 10% of the budget over the period 2009-2011.¹³³ In 2010, the Belgian defence budget of around €2.8bn was cut by €128m.¹³⁴

3.2.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

In May 2000, Belgium adopted the *2000-2015 Modernization Plan of the Belgian Armed Forces*.¹³⁵ The main thrust of ongoing reforms is to enhance operational capabilities for rapid and sustainable deployment and indicates a shift away from territorial defence to force projection as part of international missions. The emphasis lies with developing a smaller, better equipped military and on developing niche capabilities.¹³⁶ Requirements are driven by deployments abroad (peace-operations, humanitarian aid, disaster relief, evacuation missions). The *'Political Orientation Note 2008'* acknowledged concerns about meeting long-term strategic objectives, and pointed out that the overall national defence budget was well below that required to complete the transformation envisioned in 2000 or as revised in 2003. The *'Plan for Finalisation of Transformation 2009'* developed by Defence Minister De Crem in October 2009 attempts to reconcile the vision with budget realities.¹³⁷

Force Structure and Personnel

The Belgian armed forces currently are and will remain geared primarily for peace and stability operations. The MoD seeks to be primarily able to contribute to a coalition effort (UN, EU, NATO). The military aims for the ability to perform all tasks required for stability operations and maintains only niche capabilities for conventional conflicts. Belgium seeks to contribute specialized niche capabilities in the conventional realm to NATO (combat aircraft, para-commandos, special forces and naval forces (frigates and mine hunters).¹³⁸ The land component is transforming under the terms of the *'2000-2015 Modernisation Plan of the Armed Forces'* to be constituted eventually of a mechanised capacity relying solely on wheeled armoured vehicles and air-transportable infantry capacity with transport helicopters.¹³⁹ Flexibility to work in a hybrid environment and perform a diversity of tasks is being enhanced by the volume and structure of manoeuvre units, in particular the provision of 40 soldiers per platoon and the modular nature of units.¹⁴⁰

De Crem's adaptation of the original reform plan calls for the reduction of the armed forces' end-strength from currently 38,400 to 34,000 (32,000 military, 2,000 civilian personnel) by 2013, the closure and reorganisation of around 30 military installations, including about a dozen of Belgium's 30 bases¹⁴¹ (i.e. 40% of all army bases) as well as an increase in the efficiency in logistics.¹⁴² The current savings plan foresees a reduction of the land forces to only two combat brigades or around 6,000 troops, which would represent a drop of around 1,000 troops.¹⁴³ The governmental crisis in which Belgium finds itself since 13 June 2010, however, severely constraints defence minister Pieter de Crem's political capacity to act on the implementation of the plan.

Equipment and Procurement

¹³³ 'Belgium slashes defence spending for 2010 budget', *Agence France Presse*, 13.10.2009.

¹³⁴ 'Défense: Des mesures d'économies plus importantes que prévues', *Agence Belga*, 21.10.2009.

¹³⁵ 'Belgium', *Jane's World Armies*, 14.05.2010.

¹³⁶ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 40.

¹³⁷ 'Belgium', *Jane's World Armies*, 14.05.2010.

¹³⁸ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 40.

¹³⁹ 'Belgium', *Jane's World Armies*, 14.05.2010.

¹⁴⁰ *Ibid.*

¹⁴¹ 'Belgium slashes defence spending for 2010 budget', *Agence France Presse*, 13.10.2009.

¹⁴² 'La Belgique à la traîne pour les achats de matériel militaire', *Agence Belga*, 10.06.2010 ; 'Belgian defence chief outlines army restructuring needs', *BBC*, 10.07.2009.

¹⁴³ 'Belgium', *Jane's World Armies* 14.05.2010.

The '*Strategic Steering Plan 2003*' gave investment priority to the land component. The focus on peace and stability operations also explains the elimination of tracked armoured vehicles for conventional warfare and the transition to wheeled armoured vehicles, which are intended to provide greater versatility and flexibility and will be useful in a variety of threat environments. Further equipment priorities include: A400M transport planes, frigates, mine hunters, medium transport helicopters, transport and fighter upgrades.¹⁴⁴

3.2.3 Level of Ambition and International Engagement

The Belgian level of ambition is not clearly defined. No troop-withdrawal from current military engagements will be considered as a consequence of financial necessities. Belgian troops are currently engaged in ISAF with NATO in Kandahar, Kabul, Kunduz and Mazar I Sharif. The number of fighter jets engaged remains unchanged to date (six Falcon F-16). Belgium deploys troops as observers under UN mandate in Israel (UNTSO), Somalia/Sudan (UNMIS), and in the DR Congo (MONUC). Belgian soldiers are also deployed for explosive ordnance disposal with UNIFIL in Lebanon. Since October 2010, Belgium sent out a frigate as part of the EU-Operation ATLANTA in the Gulf of Aden. Belgian troops have traditionally been engaged in bilateral security force assistance with African states such as Benin, the Congo and Burundi.

3.2.4 Pooling and Sharing Options

Belgian armed forces are already engaged in a number of pooling and sharing initiatives, and intend to make further use of this option in the future. The Belgian and Dutch Navy for instance already share capabilities and organise joint training. The Belgian armed forces are further interested in the harmonisation/standardization of new capabilities of importance for current deployments (e.g. A400M, NH90), especially with Germany. There is also interest for deepening Belgian-German cooperation with regard to training and the joint use of simulators. Talks are engaged on this point. Even before the Ghent summit of September 2010, informal talks between the Belgian and German defence ministers took place in order to start a process with a view to identifying fields in which further cooperation to ameliorate synergies is possible. Belgium is also interested in finding a joint European solution for multirole combat aircraft, since the Belgian F-16 fleet needs replacement.¹⁴⁵ Defence Minister De Crem's restructuration plan calls for a reduction of F-16 in service from 60 to 54 with six planes being mothballed.¹⁴⁶

¹⁴⁴ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 40.

¹⁴⁵ ,M. De Crem regrette que la Belgique ne participe pas au programme de chasseur JSF', *Agence Belga*, 27.10.2010.

¹⁴⁶ 'Belgium slashes defence spending for 2010 budget', *Agence France Presse*, 13.10.2009.

3.3 Bulgaria

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		23.26	26.48	30.77	35.43	35.04	35.86
GDP per capita, euro tsd.		3.01	3.45	4.03	4.66	4.63	4.76
Gross public debt, euro bn.		6.39	5.72	5.30	4.86	5.14	6.52
Gross public debt (% of GDP.)		27.48	21.60	17.22	13.72	14.67	18.18
Net lending (+) or net borrowing (-), euro bn.		0.24	0.49	0.35	0.59	-1.64	-1.38
Net lending (+) or net borrowing (-), % of GDP		1.02	1.85	1.13	1.66	-4.68	-3.84
Defense budget, euro bn.		0.50	0.55	0.61	0.79	0.74	0.76
Defense budget, % of GDP		2.15	2.08	1.97	2.23	2.13	2.12
Military personnel	Armed forces	51,000	51,000	51,000	40,747	40,747	34,975
	Gendarmerie	34,000	34,000	34,000	34,000	34,000	34,000

3.3.1 Impact of the Financial Crisis on the Defence Budget

The Bulgarian defence budget for 2010 was reduced to €456m from €740m in 2009. In April 2010, however, a compensatory budget of €131m had to be adopted in order to pay for running armaments programmes and thus to avoid incurring penalties for non-payment. The budget for 2011 is expected to amount to around €560m, slightly less than the augmented budget of 2010.¹⁴⁷ A slight increase in the defence budget is again expected for 2012-14. The Defence Ministry's goal is to slowly rise defence spending to be able to modernize its military.¹⁴⁸

3.3.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The goal of the Bulgarian armed forces' reform to date has been to create a flexible, well-equipped and interoperable force, which can be rapidly committed to the full spectrum of military tasks for NATO and EU operations.¹⁴⁹ In February 2010, the Bulgarian government began a major force structure review starting with an analysis of the threat environment and of the tasks facing the Bulgarian Armed Forces - nationally and in coalition operations- on the basis an evaluation of defence resources. Reform need to undo missteps of its early reform efforts and deal with decades of stagnation as a former Warsaw Pact member.¹⁵⁰ The strategic review generated a White Paper to be submitted for public discussion and ultimately for adoption by parliament.¹⁵¹ This document provided the mid-term vision for force development. In an effort to define capability-based planning for the Bulgarian armed forces, the reform is to cover task organization, equipment and combat training. In a preliminary analysis, the MoD is currently drawing up a picture of which capabilities Bulgaria should discard and which capabilities it lacks and should thus be building up.¹⁵² A Force Development Plan was adopted in December 2010 and schedules a restructuring of the combat units in March 2012. Redundancies in 2011, however, will be limited to the Defence Ministry and the highest command levels in the armed forces.¹⁵³

¹⁴⁷ 'Budget walls confront defence in SE Europe', *Agence France Presse*, 21.10.2009.

¹⁴⁸ R.K. Ackermann, 'Bulgarian Military Faces Multitude of Challenges', *Signal*, Vol. 65: 3, 01.11.2010.

¹⁴⁹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, (Fn. 2), p. 40.

¹⁵⁰ 'Bulgarian defence minister views "drastic" personnel cuts, forces' reform', *BBC*, 28.01.2010; 'Bulgarian Defence Ministry to cut senior military staff by 30 per cent', *BBC*, 31.05.2010; R.K. Ackermann, 'Bulgarian Military'.

¹⁵¹ 'Vers une forte baisse des effectifs militaires bulgares', *Reuters*, 16.09.2010.

¹⁵² R.K. Ackermann, 'Bulgarian Military'.

¹⁵³ Bulgarian minister discusses draft bill on armed forces standing reserve, *BBC*, 04.12.2010.

Force Structure and Personnel

About 80% of Bulgaria's defence budget is currently spent on personnel. The government wants to lower the proportion to 65% and be able to spend about 15% on capital investment.¹⁵⁴ First cuts have already ensued in the defence ministry as well as in the top-command administrative offices. The reforms aim for a downsizing of around 700 administrative posts in the ministry and around 700 posts in top-command administrative ranks and should ultimately amount to reductions of up to 20% of current capacity by mid-2011.¹⁵⁵

Equipment and Procurement

Due to the defence cuts, only the most important procurements and preparations for deployment for troops sent to Afghanistan and Bosnia-Herzegovina could be achieved. Shortages have been significant for a number of years with regard to training, ammunition, petrol, and as primary items such as catering, heating and clothing.

No new defence equipment has been procured in 2010 and new programme starts are limited for 2011. As a consequence of the financial crisis, some programme contracts will need to be reconsidered and some programme payments restructured. Among those are contracts with Eurocopter for new transport helicopters, contracts with Daimler for new land vehicles and with Alenia Aeronautica for new transport aircraft. In October 2009, Bulgaria announced the cancellation of a deal to buy two Gowind corvettes from Armaris (DCNS).¹⁵⁶

Capabilities that will be prioritized in light of the strategic review are air defence, as Bulgaria's military here faces a capability shortfall: The country's MiG 29s and MiG 21s are ageing and need replacement in the 2012 horizon. The country will thus need to acquire a multirole fighter aircraft, for which acquisition is likely to begin in 2011. Land forces also need modernization and Bulgaria is here seeking to be included in the US assistance programme for ISAF participants.¹⁵⁷

Priorities, whose pursuit is unlikely in the mid-term, are: a full range of C4I systems, including a mobile communications and information system up to the brigade level for its land forces and an upgrade of its fixed-station capabilities; an effective network-enabled ISR/ISTAR system, an upgrade of Bulgaria's helicopters to serve in a broader range of hostile environments; an upgrade of soldier equipment of both land and air forces; counter-IED; UAV-capabilities.¹⁵⁸

3.3.3 Level of Ambition and International Engagement

At the end of 2009, Bulgaria reduced its troop numbers with KFOR from around 50 to 10 soldiers. Attempts to reduce troop numbers in Bosnia-Herzegovina were stopped by the protest of Bulgaria's international allies. In Afghanistan, troop levels were increased as previously announced from around 530 troops to 600 not to disappoint the USA.

3.3.4 Pooling and Sharing Options

Pooling and sharing are issues currently being debated in Bulgaria, yet the time is not yet politically ripe to implement concrete cooperation project. Improving the political relations to Bulgaria's neighbours in the Balkan/ Southeastern Europe is considered an absolute priority. The aim is to become an essential ally, if not a military lead-nation in the region.

¹⁵⁴ R.K. Ackermann, 'Bulgarian Military'.

¹⁵⁵ 'Bulgarian Defence Minister views "drastic" personnel cuts, forces' reform', *BBC*, 28.01.2010.

¹⁵⁶ 'Budget walls confront defence in SE Europe', *Agence France Presse*, 21.10.2009.

¹⁵⁷ R.K. Ackermann, 'Bulgarian Military'.

¹⁵⁸ *Ibid.*

During the Bulgarian chairmanship of the first meeting of the South-Eastern Europe Defence Ministerial (SEDM) Process (2009-2011)¹⁵⁹ in October 2009, the Bulgarian Defence Minister Mladenov identified the financial crisis and economic stagnation as factors that should be taken into account upon formulating the future forms of cooperation, to “invest not only in national but also in joint efforts to achieve higher efficiency.”¹⁶⁰ Mladenov stressed the need to fully utilize the potential of the South Eastern Europe Brigade (SEEBRIG), and to analyze which type of missions the Brigade should fulfil in the future.¹⁶¹ Cooperation talks have also been taking place with Serbia and Romania. With Serbia, Bulgaria is discussing military exchanges, joint military exercises and industrial cooperation as part of a military *rapprochement*.¹⁶² With Romania, Bulgaria is considering closer cooperation in the area of maintenance, crew training and air policing, given that both countries will equip themselves with the same multi-role aircraft.¹⁶³ Concluding the reforms of the armed forces is considered a priority and concrete pooling and sharing may then resurface on the political agenda after 2014. Accordingly, the Ghent-Process is being acknowledged in Bulgaria but does not come center-stage in domestic debates. Bulgaria to date prefers to concentrate on bilateral relations to the US, which still invests substantial amounts into the Bulgarian armed forces.

3.3.5 Defence Industry

The Bulgarian defence industry is chiefly concentrated in the field of handguns and smaller products in the opto-electronic field. Despite privatisation in parts, both domestic and international demand for their goods remains very weak. The Bulgarian government seeks to strengthen or support its defence industry by looking for adequate foreign investors or by using offsets.¹⁶⁴

3.4 Czech Republic

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	100.19	113.70	127.33	147.88	137.16	146.26
GDP per capita, euro tsd.	9.79	11.07	12.34	14.18	13.05	13.88
Gross public debt, euro bn.	30.53	34.50	38.45	41.11	48.36	58.36
Gross public debt (% of GDP.)	30.47	30.34	30.20	27.80	35.26	39.90
Net lending (+) or net borrowing (-), euro bn.	-3.58	-3.00	-0.86	-4.02	-7.95	-7.67
Net lending (+) or net borrowing (-), % of GDP	-3.58	-2.63	-0.68	-2.72	-5.80	-5.24
Defense budget, euro bn.	1.77	1.97	1.98	2.17	2.12	1.95
Defense budget, % of GDP	1.77	1.73	1.55	1.47	1.54	1.33
Military personnel Armed forces	22,272	22,272	24,752	23,092	24,083	17,932

¹⁵⁹ Participants to the SEDM are Bosnia and Herzegovina, Bulgaria, Greece, Italy, Macedonia, Romania, Slovenia, Turkey and Ukraine. Observer Nations are Montenegro, Georgia, Moldova and Serbia.

¹⁶⁰ ‘Southeast European defence ministers meet in Bulgaria’, *BBC*, 21.10.2009.

¹⁶¹ *Ibid.*; ‘Bulgaria hosts southeast Europe defence meeting on security, cooperation’, *BBC*, 14.09.2010.

¹⁶² ‘Bulgarian, Serbian defence ministers discuss joint exercises, cooperation’, *BBC*, 14.12.2010.

¹⁶³ ‘Romanian, Bulgarian defence ministers discuss defence relations’, *BBC*, 02.06.2010.

¹⁶⁴ R.K. Ackermann, ‘Bulgarian Military’.

3.4.1 General Defence Policy Outlook

The Czech Republic considers the risk of a direct military attack on its territory to be relatively low for the coming 10 to 15 years. Instead, its threat perceptions include international terrorism, migration, economic crises and natural disasters.¹⁶⁵ A Defence White Paper is to be completed by Spring 2011.¹⁶⁶

3.4.2 Impact of the Financial Crisis on the Defence Budget

The defence budget for 2009 was €2.27bn, or 1.5% of GDP. In 2010, the defence budget fell below €2bn. The Czech defence Budget for 2011 amounts to €1.8bn.¹⁶⁷ Cuts of approximately 10% are foreseen in the Czech defence budget for 2011. Defence expenses will thus drop from 1.3% of GDP in 2010 to 1.15% in 2011. Current cuts are part of the savings program installed by the current Czech government reaching into 2012.

3.4.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The reform process of the Czech armed forces started in 2003. The overall goal of the reforms is to arrive at a small, mobile and advanced force with key operational capabilities that enable increased force projection. Key means to achieve this reform are specialization, downsizing, a two-tier force structure, professionalization and increased cooperation. Full professionalization was achieved in 2005, with the last batch of conscripts called up in 2004.¹⁶⁸ A new Security Strategy and a Defence White Paper will be drafted in 2011 will in all likelihood review the current force structure and ambitions in terms of current budgetary pressures. The latest set of strategic documents of 2008 had already presented an starkly reduced Force structure and ambition in light of fiscal pressures (The Long Term Vision of the Sector of the Ministry of Defence and the The Military Strategy of AČR 2008).

Force Structure and Personnel

The Defence Ministry must cut its mandatory and operational spending. The Ministry has reduced its personnel in connection with the budgetary cuts. The White Paper will define the level of cuts in personnel. Some estimates expect these numbers to be around 700 employees with another 350 vacancies for career soldiers to be abolished.¹⁶⁹ The pay of soldiers and civilian personnel will be reduced in line with similar cuts planned with all public employees. Savings are expected on training, with more use being made of simulators to reduce costs (e.g. shooting).¹⁷⁰ Still, even the simulators will need to be retired in 2012. The cuts in defence expenditures are further planned to be translated into the reduction of the armed forces through the re-selling of military property as well as through the retirement of expensive systems (e.g. fighter helicopters).

The Czech armed forces focus on certain niche capabilities such as NBC protection, Med-Evac and electronic warfare at the expense of a more comprehensive capability. Accordingly, all major categories such as manpower, bases, main battle tanks, armoured vehicles and fighter aircraft are being downsized through decommissioning.¹⁷¹

¹⁶⁵ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.41.

¹⁶⁶ 'Czech minister wants fixed level of state spending on defence', *BBC*, 07.11.2010.

¹⁶⁷ Ministry of Defence and Armed Forces of the Czech Republic, *Basic Data of the State Budget*, available at <<http://www.army.cz/scripts/detail.php?id=5760>>, 29.03.2011.

¹⁶⁸ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.42.

¹⁶⁹ 'Czech minister wants fixed level of state spending on defence', *BBC*, 07.11.2010.

¹⁷⁰ 'Czech Army to partially replace live training with simulators to reduce costs', *BBC*, 29.11.2010.

¹⁷¹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.42.

Equipment and Procurement

Decisions on which to implement major reductions in the purchase of machines and services are currently going on as part of the process of drawing up the new White Paper, as part of an audit between 2005 and 2010: €310m of the total €380m procurement budget is allocated for current projects such as the lease of Gripens and the repayment of Pandurs and Ivecos (armoured vehicles). The Czech army is currently leasing 14 JAS-39 Gripen fighter planes but the lease runs out in 2015. In 2011, the army plans to spend part of the non-specific funds on the further modernization of helicopters, which are the most frequently used means of transport in Afghanistan, for instance.¹⁷²

3.4.4 Level of Ambition and International Engagement

The Czech armed forces' level of ambition –already very low- will not be further reduced. The Czech Republic's level of ambition is defined as participation in peace-support or peacekeeping operations with a mechanized battalion and a special company (up to 1.000 personnel in total), sustainable for a year with six-months rotation, plus another contingent of 250 personnel deployed for six months without rotation on a humanitarian or rescue missions. Alternatively, the Czech armed forces should be able to deploy one brigade-sized army task force of up to 3.000 personnel for six months and an equivalent air-force contingent for three months.¹⁷³ The Chamber of Deputies agreed in early November 2010 to raise Czech participation in Afghanistan by about 200 to 720 soldiers in 2011. In 2012 the total should be 80 soldiers lower.¹⁷⁴ The increase of troops in Afghanistan will be compensated by a reduction of forces in Kosovo.

3.4.5 Pooling and Sharing Options

Although discussions still stand at the outset, pooling and sharing are options currently being discussed with much intensity in the Czech Republic. Especially closer cooperation with the Visegrad Four (Poland, Czech Republic, Slovakia, Hungary) is considered to be an interesting option although doubts remain with regard to an equitable burden-sharing among the four. Cooperation with Slovakia seems here most likely and promising, since the armed forces of both states already closely work together. On the background of the debate about prolonging the leasing of Gripen-fighter jets, Prime Minister Necase has been advocating for a while the sharing of planes with other NATO member countries, inspired by the example of the Netherlands and Belgium, which are building up a joint Navy.¹⁷⁵

¹⁷² 'Czech Army to partially replace live training with simulators to reduce costs', *BBC*, 29.11.2010.

¹⁷³ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.41.

¹⁷⁴ 'Czech minister wants fixed level of state spending on defence', *BBC*, 07.11.2010.

¹⁷⁵ 'Experts suggest Czechs save on fighter plane costs, cooperate with NATO allies', *BBC*, 02.07.2010.

3.5 Denmark

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	207.37	218.75	227.53	233.48	222.41	232.91
GDP per capita, euro tsd.	38.27	40.23	41.67	42.51	40.28	42.06
Gross public debt, euro bn.	78.20	70.20	62.00	79.70	92.50	104.70
Gross public debt (% of GDP.)	37.71	32.09	27.25	34.14	41.59	44.95
Net lending (+) or net borrowing (-), euro bn.	10.80	11.29	10.95	7.53	-6.03	-11.79
Net lending (+) or net borrowing (-), % of GDP	5.21	5.16	4.81	3.22	-2.71	-5.06
Defense budget, euro bn.	2.54	2.65	3.05	3.04	3.10	3.34
Defense budget, % of GDP	1.22	1.21	1.34	1.30	1.39	1.44
Military personnel Armed forces	21,180	21,180	21,620	29,960	29,550	26,585

3.5.1 General Defence Policy Outlook

The Danish threat assessment concludes there will be no conventional threat to Denmark in the foreseeable future. Denmark considers NATO to be the bedrock and ultimate guarantor of its security and has opted out of participating in the EU's Common Security and Defence Policy. Denmark thus does not commit troops to EU battlegroups or to meet EU Headline Goals.¹⁷⁶ However, the current government has committed to conduct a referendum on whether the opt-out should be reversed before the next parliamentary elections due in 2011 and has been preparing for immediate participation in EU defence bodies for the case of a positive result.¹⁷⁷

3.5.2 Impact of the Financial Crisis on the Defence Budget

Out of the Nordic states, Denmark and Finland have been most affected by the global economic downturn, but both governments have resisted political and economic pressures to drastically cut defence spending, opting instead for modest increases while seeking greater efficiencies in military operations.¹⁷⁸ The MoD has responded to the Armed Forces Command's request for higher expenditure by instructing them to cover extra spending requirements by cutting the military's operating cost-base by about €366m in savings by 2014.¹⁷⁹ Decommissioning old equipment is thus the order of the day for the Danish armed forces.

In July 2009, a five-year defence budget was adopted, that allocated €3.06bn to the Danish Armed Forces in 2010 and €3.03bn for each other year up to 2014.¹⁸⁰ The defence budget for 2011 amounts to €3.11bn.¹⁸¹ For each year the budget was foreseen to include €18.2m to create a secure computer network-operations capacity, a maximum of €134m for participation in international missions, and around €54m for 'one-off expenditures'.¹⁸² Procurements are expected to account for more than 15 percent over the term 2010-2014.¹⁸³

¹⁷⁶ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 42-43.

¹⁷⁷ Op.cit, p. 43.

¹⁷⁸ Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

¹⁷⁹ Ian Brzezinski, Damon Wilson, 'NATO's future amid defence cuts', *The Nation*, 20.10.2010; Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

¹⁸⁰ Gerard O'Dwyer, 'Danish Government Finalizes Historic Budget', *Defense News*, 13.07.2009.

¹⁸¹ Danish Ministry of Defence, *Defence Expenditure 2011*, available at: <<http://www.fmn.dk/eng/allabout/Pages/Defenceexpenditure.aspx>>, 29.03.2011.

¹⁸² International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 115.

¹⁸³ Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

3.5.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The major lines of Danish defence policy are set in the 'Defence Agreements' defined every five years. The current 'Defence Agreement 2010-2014' commits Denmark to pursue the transformation process of its armed forces to become "modern deployable defence forces".¹⁸⁴ The reform of the Danish army is strongly inspired by reforms made within the UK Army. Over the next five years, the armed forces -still based on conscription-¹⁸⁵ will become smaller and more expeditionary, though with pressure on the budget there will be a number of cutbacks.¹⁸⁶

To render the Danish armed forces more expeditionary whilst making savings, ground-based air-defences will be reduced and reductions with the Navy are planned (Standard-Felx). Denmark decided to withdraw from NATO's Air Ground Surveillance System programme in 2010. The decision concerning the future fighter replacement to the current F-16 fleet was postponed several times in 2009. In light of the current budgetary situation, there will be no replacement for the F-16 by 2016 as originally planned. The new replacement date is now 2020 and the use of the F-16 is to be extended until then.

Further reductions worth up to €98 million from core and infrastructure support units to be implemented by 2014 also include a reduction of the number of F-16 aircraft from 48 to 30 starting 2011 and a cut of up to half of the Army's Leopard 2A5DK tank fleet down to 34.¹⁸⁷ The Army will decommission its long-range fire-support system of M109 howitzers, disband its anti-aircraft artillery and long-range anti-armour missile units.¹⁸⁸ The navy will cut its number of permanent naval surveillance units from four to three and reduce the air force's *Fennec* helicopter personnel and equipment, ending the international capability of that fleet.¹⁸⁹ In a bid to rationalize the armed forces' functioning, Denmark has also outsourced a number of support functions since 2005, including part of the military's information and communications technologies operations.¹⁹⁰

In terms of new equipment, the Danish army will receive new armoured vehicles, communications and engineering equipment and personnel-protection suites for infantry troops. The Navy is scheduled to take delivery of new maritime helicopters, weapons systems, small vessels and auxiliary ships. The Air Force will receive new radar and control systems, communications and identification systems and supplementary equipment for its EH-101 Merlin helicopters.¹⁹¹

3.5.4 Level of Ambition and International Engagement

For NATO and UN operations, the level of ambition is defined as a sustainable deployment of 2.000 troops (~1.500 army and 500 for navy and air force). One brigade is designated to NATO at high readiness, one at low readiness. The latter will also provide forces for Denmark's involvement in the UN Standby High Readiness Brigade. The aim has been to commit a full brigade to NATO Response Force (NRF) rotation in 2010.¹⁹² There is currently no talk of reducing Denmark's levels of ambition or of early withdrawals from its international engagements.

3.5.5 Pooling and Sharing Options

Pooling and sharing are options on which discussions are starting, but with a preference for NATO as context rather than the EU, due to its caveats concerning CSDP and due to the close alliance with the

¹⁸⁴ Danish Ministry of Defence, *Defence Agreement 2010-2014*, Copenhagen, 24.06.2009, p.1.

¹⁸⁵ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 43.

¹⁸⁶ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 115.

¹⁸⁷ Gerard O'Dwyer, 'Nordics to Hunt for Savings Across Defense', *Defense News*, 14.12.2009.

¹⁸⁸ *Ibid.*

¹⁸⁹ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, pp. 115.

¹⁹⁰ Gerard O'Dwyer, 'Nordic militaries to boost outsourcing', *Defense News*, 29.11.2010.

¹⁹¹ International Institute for Strategic Studies, Chapter Three: Europe, *The Military Balance*, Vol. 110: 1, pp. 115. Forecast International Defense Intelligence Newsletter, *A look at Denmark's Defence Agreement 2010-2014*, 09.09.2009.

¹⁹² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p.43.

USA. Nevertheless, the Ghent Process is considered a good initiative and Denmark supports it and would like to be part of it. Denmark has signed the Nordic Defence Cooperation (NorDefCo) Memorandum of Understanding in 2009.

3.5.6 Defence Industry

Denmark's defence industry is only small and local. Effects of the crisis on its economic situation remain unclear to date.

3.6 Finland

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	157.31	165.64	179.70	184.65	171.32	178.46	
GDP per capita, euro tsd.	29.99	31.45	33.98	34.75	32.09	33.26	
Gross public debt, euro bn.	65.70	65.70	63.20	63.00	75.10	87.50	
Gross public debt (% of GDP.)	41.77	39.66	35.17	34.12	43.84	49.03	
Net lending (+) or net borrowing (-), euro bn.	4.25	6.65	9.31	7.79	-4.26	-5.52	
Net lending (+) or net borrowing (-), % of GDP	2.70	4.01	5.18	4.22	-2.49	-3.10	
Defense budget, euro bn.	2.21	2.27	2.31	2.42	2.82	2.72	
Defense budget, % of GDP	1.40	1.37	1.29	1.31	1.65	1.52	
Military personnel	Armed forces	28,300	28,300	29,300	29,300	29,300	22,600
	Gendarmerie	3,100	3,100	3,100	3,100	3,100	2,950

3.6.1 Impact of the Financial Crisis on the Defence Budget

Finland (along with Denmark) has been the Nordic country most affected by the global economic downturn, yet the government has resisted political and economic pressures to drastically cut defence spending, opting instead for modest increases while seeking greater efficiencies in military operations.

In September 2010, the Finnish MoD announced its intention to raise defence spending by 2% annually in the period of 2011 to 2015 to bring forward army modernisation plans.¹⁹³ The defence budget for 2011 amounts to €2.8bn and remains at about 1.55% of GDP like in previous years (€2.61bn in 2010 and €2.69bn in 2009).¹⁹⁴ The forecast is €2.37bn in basic spending for 2012 and €2.25bn for 2013.

Long-term spending on defence, set by the government in March 2010, envisages a total four-year allocation of €10.77bn for 2010-2013, €0.83bn higher than for the 2006-2009 period. About one-third will fund ongoing and new procurements, such as the Army's €1.12bn Air Defence Project that will deliver a NATO-compatible anti-aircraft missile system.

3.6.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Despite acknowledging a wide range of threats, such as international terrorism, WMD proliferation, regional conflicts, international crime and others, Finnish defence policy remains geared towards territorial defence based on a conscript armed forces.¹⁹⁵ Territorial defence, support to civilian authorities and participation in international crisis management are defined as core tasks of the Finnish armed forces.¹⁹⁶

¹⁹³ 'Recent defence spending plans announced by EU member states', *Europolitics*, 30.11.2010.

¹⁹⁴ Finnish Ministry of Defence, Division of Defence Spending, available at <http://www.defmin.fi/index.phtml?l=en&s=120>, 29.03.2011; Gerard O'Dwyer, 'Nordic Budgets Reflect Push for Cost-Cutting, Efficiency', *Defense News*, 20.09.2010.

¹⁹⁵ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 67.

¹⁹⁶ *Ibid.*

Force Structure and Personnel

The Finnish military has been engaged in defence reforms based on significant downsizing, whilst maintaining conscription, which is considered a cost-effective way to defend a large country. The end-strength has been reduced to 22,600 in 2010, mostly through cuts in the reserve.¹⁹⁷

Downsizing is forcing significant organisational changes: The Army has decommissioned one armoured brigaded, detached armoured battalions, four regional brigades, three Jaeger brigades and more than 200 smaller units.¹⁹⁸ The Navy decommissioned fast-attack craft and a mine-countermeasures vessel, which will be replaced. Mobile and fixed coastal artillery has been reduced. The Air Force will retain its strength and will, for the first time, obtain air-to-ground capability through a mid-life upgrade of its F-18 fighters.¹⁹⁹ The rapid-reaction capacity of the armed forces is to increase.

Further force structure objectives outlined in the White Paper that are currently pursued involve developing up to three so-called readiness brigades; creating two mechanised battlegroups, a helicopter battalion and a special-forces battalion; and establishing five regional battlegroups, six main air-force bases and three fighter squadrons. Listed among the White Paper's other priorities is the creation of two missile fast-attack craft squadrons, two mine-countermeasure squadrons and two coastal infantry battalions.²⁰⁰

Changes to the command structure are being made: Regional commands and military provinces will be restructured into seven military provinces. Materiel Command will be streamlined to shed land and real estate. The naval headquarters will be moved from Helsinki to Turku and maritime surveillance will be centralised. As part of an attempt to rationalize the national defence apparatus, Finland began large-scale outsourcing of non-core defense functions in 2005. The Air Force contracted out its basic pilot flight training to Patria, the state-controlled defence group for a price of €22m over five years.²⁰¹

Equipment and Procurement

Airlift, intelligence gathering, C3 and inter-operability were considered the most important areas for improvement for crisis-management tasks before the start of the crisis. Equipment priorities to match these goals included networked communications, mine-countermeasures vessels, fast-attack craft, tactical transport planes, fighter aircraft upgrades, armoured vehicles and medium transport helicopters.²⁰²

In a direct response to events in Georgia in 2008, the Finnish government boosted the 2009 defence budget by 16% and indicated that it would be willing to carry on raising the budget in future years should the security conditions require it. Details of the proposed funding plans were laid out in the 2009 Finnish Defence and Security Policy document, which suggested that spending should be increased by 2% a year in real terms from 2011.²⁰³ Mobility, precision stand-off strike, force protection, air defence and a joint C4ISR are current key undertakings with €800m to be spent by 2012, drawing on Finland's strong high-technology base.

In June 2010, after a domestic political standoff between advocates of defence savings and their opponents, the Ministry of Defence was granted additional €440m in new funds for the period 2011–14. Therefore no crisis-induced postponements or cancellations in procurement can be observed. Finland will thus carry on with its modernization programmes and has commissioned the national champion Patria with the modernization of 35 F-18 Hornets for €24m until 2015.

¹⁹⁷ Ibid.

¹⁹⁸ Op.cit., p. 68.

¹⁹⁹ Bastian Ibid.

²⁰⁰ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p.117.

²⁰¹ Gerard O'Dwyer, 'Nordic militaries to boost outsourcing', *Defense News*, 29.11.2010.

²⁰² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 68.

²⁰³ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol. 110: 1, p.117.

3.6.3 Level of Ambition and International Engagement

Finland is committed to providing 300 Finnish soldiers to two battle units which are in readiness from the beginning of the year till end of June and which are ready to leave for crisis management operations decided jointly by the EU. For Finland, participating in the Battlegroup units is more expensive than for countries which use professional armies, since they can register troops that already exist and would be training anyway. The Finnish Armed Forces in turn have to invite reservists for training and pay them for being trained and in readiness. The Finnish Parliamentary Defence Committee was pondering in early December 2010 whether Finland should rethink its participation in the EU battle units, as these are a particular financial burden for forces that have never been used to date (“use it or lose it”).²⁰⁴

However, Finland seeks to maintain its current level of participation in international crisis management operations.²⁰⁵ Finland has 180 troops serving with ISAF and plans to increase this number to 195 by January 2011.²⁰⁶ The Finnish Parliament currently debates whether to renew participation to UNIFIL. Annual crisis-management appropriations were increased to €150m a year in 2010.²⁰⁷

3.6.4 Pooling and Sharing Options

Finland is a strong proponent of closer defence cooperation as illustrated by the Ghent Initiative and its long-time participation in Nordic defence cooperation and latest signature of the NORDEFECO MoU in 2009.

A proposal to set up a shared surveillance effort over the North Sea is seen as attracting broad Nordic support.²⁰⁸ Finland is hesitating over a proposal backed by Denmark, Norway and Sweden to conduct fighter jet patrols over NATO-aligned Iceland, citing its own neutrality as well as the sizable commitment of planes and money.²⁰⁹

Finland decided to work more closely with Estonia on its € 750 million National Air Defence Modernisation Plan (NADMP) until its scheduled completion in 2015. Cooperation over the system to repel and counter hostile air attacks will enable both Finnish and Estonian forces to coordinate air-defence strategies. The air-defence collaboration between the two countries is significant on a number of counts: the radar system element marks the single biggest common procurement program between Finland and any of the NATO-aligned Baltic states. It also extends Finland’s radar-based air-surveillance reach beyond the Gulf of Finland and into the far reaches of the Baltic Sea.

The cross-border collaboration gives the Estonian Army access to the latest medium-range air surveillance systems and due to the common purchase programme, it does so at a cost significantly lower than had Estonia sought to acquire these capabilities on its own. Finland’s traditional support of defence system development within the Baltic States is largely concentrated on Estonia, with more modest support to the defences of Latvia and Lithuania. Estonia has also been the main recipient of Finnish surplus, equipment and materials, including armoured vehicles and artillery.²¹⁰

3.7 Greece

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	194.82	209.92	225.54	235.68	233.05	229.93
GDP per capita, euro tsd.	17.54	18.82	20.14	20.96	20.69	20.20

²⁰⁴ ‘EU battle unit role expensive for Finland, says defence committee’, *BBC*, 06.12.2010.

²⁰⁵ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 68.

²⁰⁶ Gerard O’Dwyer, ‘Sweden, Finland May Coordinate Afghan Strategies’, *Defense News*, 08.11.2010.

²⁰⁷ International Institute for Strategic Studies, ‘Chapter Three: Europe’, *The Military Balance*, Vol. 110: 1, p.117.

²⁰⁸ *Ibid.*

²⁰⁹ *Ibid.*

²¹⁰ Gerard O’Dwyer, ‘Finland, Estonia join forces on defense modernization’, *Defense News*, 05.10.2009.

Gross public debt, euro bn.	195.40	224.20	238.60	261.40	298.00	325.20	
Gross public debt (% of GDP.)	100.30	106.80	105.79	110.91	127.87	141.44	
Net lending (+) or net borrowing (-), euro bn.	-10.07	-12.11	-14.47	-22.36	-36.15	-22.33	
Net lending (+) or net borrowing (-), % of GDP	-5.17	-5.77	-6.41	-9.49	-15.51	-9.71	
Defense budget, euro bn.	3.52	3.71	3.87	4.16	4.32	n.a.	
Defense budget, % of GDP	1.81	1.77	1.72	1.77	1.85	n.a.	
Military personnel	Armed forces	163,850	163,850	147,100	156,600	156,600	156,600
	Gendarmerie	4,000	4,000	4,000	4,000	4,000	4,000

3.7.1 General Defence Policy Outlook

Due to decades-long tension with neighbouring Turkey over territorial disputes including the divided island of Cyprus, the size of territorial waters, airspace and the continental shelf in the Aegean, debt-ridden Greece has the EU's biggest military budget as a percentage of GDP, and the second highest in NATO after the US.²¹¹ Over the period 1988 to 2008, the percentage of GDP spent by Greece on armaments has averaged 4% against 3.4% for Turkey and 2.9% for the UK and France.²¹² Besides the conventional threat perceived as emanating from Turkey, the Greek government considers the Balkans to be still unstable. Towards the end of 2010 a improvement in Greek-Turkish relations could be observed as both states have been trying to establish a common strategic vision to end their major disputes surrounding the Aegean, including territorial water borders, airspace, over-flights and sovereignty over oil drilling rights and some islands.²¹³ Such rapprochement was not least motivated on both sides by Greece's dire fiscal situation. In accordance with these threat perceptions, the Greek armed forces have a defensive posture, with territorial defence their main task. International deployments have thus always been below EU average as a percentage of active forces. Issues such as terrorism, WMD proliferation or organised crime have only been officially considered threats to national security since the revision of the *1997 White Paper*.²¹⁴

3.7.2 Impact of the Financial Crisis on the Defence Budget

Greece's defence budget was at 2% of GDP in 2010, down from 3% in 2009.²¹⁵ Greece's defence budget was cut by around 18% in 2010 (- €1.1bn) and will in all likelihood be reduced by a further 19% in 2011, and fall from €6bn to €5bn.²¹⁶ The conventional focus of Greece's armed forces reform has recently proved very difficult to sustain in light of state bankruptcy. A reduction by about €500m is foreseen in military expenditure through delivery stops alone.²¹⁷

3.7.3 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Greece's defence-reform process is marked by the perceived need for strong territorial defence, which prevents a clear orientation towards expeditionary forces.²¹⁸ In 2001-2002 the Greek government conducted a strategic defence review that identified two main goals of modernisation: first, countering Turkish numerical superiority by means of modern and advanced equipment; and second, creating a lighter and more deployable force to engage in international crisis-management tasks.²¹⁹

²¹¹ Elena Becatoros, 'EU Greece Financial Crisis Defense', *Associated Press*, 02.06.2010.

²¹² Jean Guisnel, 'La France entend fournir plusieurs milliards d'euros d'armement à la Grèce', *Le Point*, 07.06.2010.

²¹³ Burak Ege Bekdil, 'Turkey, Greece strive to end Aegean impasse', *Defense News*, 01.11.2010.

²¹⁴ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 48.

²¹⁵ 'Recent defence spending plans announced by EU member states', *Europolitics*, 30.11.2010.

²¹⁶ 'Greece wants to cut land forces spending', *Agence France Presse*, 29.10.2010.

²¹⁷ Ministry of Finance of the Hellenic Republic, *Budget 2011: Draft Law*, 18.November 2010, p.20.,

²¹⁸ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

²¹⁹ Op.cit., p. 48.

Force Structure and Personnel

The armed forces are becoming smaller and are increasingly relying on professional soldiers.²²⁰ As consequence of the budgetary cuts, reductions were implemented in training and exercises. Pay in the armed forces has been reduced from 15% to up to 40% and posts being freed by retirement have in most cases not been refilled. The Defence Ministry announced it would scrap mandatory conscription service in the Navy and Air Force in 2012, following incumbent defence spending cuts.²²¹

Equipment and Maintenance

Capability priorities defined for the 2006-2010 equipment programme that implements the goals of the strategic defence review are: Earth stations for satellite communications, transport helicopters, six new frigates and 70 fighter aircraft, Leopard 2 main battle tanks, attack submarines, air-to-air missiles and attack helicopters.²²² Adaptation and modernisation efforts identified under the strategic review resulted in the drawing up of five-year procurement programmes. The current programme ran from 2006 to 2010.²²³ In late 2010, Defence Minister Venizelos announced that the land forces' budget for armaments projects would be reduced from €25 million to €10 million over the next 15 years.²²⁴

Greece may be forced to shelve some projects or scale back plans for new equipment, buying off-the-shelf or second-hand equipment.²²⁵ Several open arms deals concluded in 2006, including orders for submarines, frigates and warplanes had to be re-examined in light of Greece's financial situation.²²⁶ Programmes that will need to be cancelled include 450 Russian BMP-3 armoured tracked vehicles worth €1.7bn, six FREMM frigates worth €2.5bn to be bought from France, 15 Super Puma SAR-helicopters made by EADS for an estimated €400m²²⁷ and 40 fighter jets, for which Greece still had to chose between the Eurofighter, the Rafale or American options (F-16, F-18 or F-35s) on offer.²²⁸

²²⁰ Op.cit., p. 49.

²²¹ 'Greece to scrap mandatory service in navy, airforce by 2012 following defence cuts', *The Canadian Press*, 06.11.2009.

²²² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

²²³ Op.cit., p. 48.

²²⁴ 'Greece wants to cut land forces spending', *Agence France Presse*, 29.10.2010; 'La Grèce envisage de couper 15 mds EUR dans ses dépenses d'armement', *AFP*, 29.10.2010.

²²⁵ Forecast International Military Markets Group, 'Greece's budget deficit crisis may eat into future defense allocation', 04.11.2009.

²²⁶ 'Greece wants to cut land forces spending', *Agence France Presse*, 29.10.2010.

²²⁷ 'Analysis—Broke? Buy a few warships, France tells Greece', *Reuters News*, 23.03.2010.

²²⁸ Elena Becatoros, 'EU Greece Financial Crisis Defense', *Associated Press*, 02.06.2010; Gerd Höhler, 'Athen spart sich Rüstungsgüter: Die klamme Regierung in Griechenland schickt den Eurofighter in die Warteschleife', *Der Tagesspiegel*, 06.06.2010.

3.7.4 Level of Ambition and International Engagement

To meet the EU Headline Goal, Greece has pledged a brigade-level headquarters, a 3.550-strong brigade, a geographic support unit, civil-military cooperation (CIMIC), two frigates, four missile boats, one fleet oiler, one oceanographic survey vessel, one submarine, one naval aircraft, 30 F-16 and Mirage 2000 aircraft, six reconnaissance and surveillance F-4 aircraft, four C-130 transport planes, a Patriot theatre-missile-defence wing, two air-defence wings, and a search-and-rescue unit.²²⁹ Greece will need to withdraw from a number of its current international engagement to save on running costs and will do so in close coordination with NATO and EU allies.

3.7.5 Pooling and Sharing Options

Greece is currently considering options for pooling and sharing redundant capabilities at EU level. Decisions are to be expected in the first half of 2011.

3.7.6 Defence Industry

Despite representing only a small part of Greece's economic activity, the national defence industry is currently being supported by the government to protect jobs. With a few exceptions (e.g. INTRACOM), the Greek defence industry is not internationally competitive and has only been part of national armaments procurement to a limited extent. Due to the financial crisis, a number of loss-making firms are currently being privatized (Hellenic Defense System, ELBO, Hellenic Airspace Industry) as part of the attempt to consolidate the defence budget.

3.8 Hungary

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	88.57	89.80	100.74	106.37	92.94	98.41	
GDP per capita, euro tsd.	8.78	8.92	10.02	10.60	9.27	9.83	
Gross public debt, euro bn.	53.71	61.93	65.95	72.55	75.52	80.11	
Gross public debt (% of GDP.)	60.64	68.97	65.46	68.20	81.25	81.41	
Net lending (+) or net borrowing (-), euro bn.	-7.03	-8.38	-5.07	-3.98	-4.12	-3.79	
Net lending (+) or net borrowing (-), % of GDP	-7.94	-9.33	-5.03	-3.74	-4.44	-3.85	
Defense budget, euro bn.	1.16	1.21	1.36	1.41	1.21	1.33	
Defense budget, % of GDP	1.31	1.35	1.35	1.32	1.30	1.35	
Military personnel	Armed forces	32,300	32,300	32,300	32,300	25,207	29,450
	Gendarmerie	12,000	12,000	12,000	12,000	12,000	12,000

3.8.1 Impact of the Financial Crisis on the Defence Budget

In spite of the financial crisis, Hungary made the decision to slightly increase its defence budget.²³⁰ In 2009, it was decided to increase the defence budget by 0.2% of GDP over the next four years to reach over 1.3% of GDP by 2013.²³¹ Pledges were made by then-defence Minister Imre Szekeres to earmark 20% of its defence budget for development expenditures.²³² However, the financial crisis has put a caveat on these initial ambitions and savings had to be made on the investment budget as well as on

²²⁹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

²³⁰ 'NATO Chief welcomes Hungary's plan to increase defence budget', *MTI-Econews*, 19.11.2009.

²³¹ 'Hungary's armed services reform provides model, says PM Bajnai', *MIT-Econews*, 21.04.2009.

²³² 'Hungary, US defence ministers hold talks', *MTI-Econews*, 10.09.2009; 'Hungary's armed services reform provides model, says PM Bajnai', *MIT-Econews*, 21.04.2009.

maintenance and modernization of equipment. In 2010, the defence budget was around 1.17% of GDP at €1.12bn.²³³

3.8.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The crisis erupted during the implementation of a 10-year reform plan to be completed by 2014, based on a defence-review conducted by the Hungarian government in 2002-03.²³⁴ An ongoing review for a revised 10-year development in light of current fiscal constraints will show results in the summer of 2011.

The goal of the ongoing transformation process has been to create a more capable, well-equipped, deployable and interoperable force within the limits of financial constraints to fulfill Hungary's growing international obligations within NATO and the EU. The first years were focused on legislative changes and adaptation of the force structure.²³⁵ Conscripted ended in 2005.²³⁶ The Hungarian armed forces were at an end-strength of 125.000 soldiers in 1990 and at 25.000 troops today.²³⁷

From 2006 on reform efforts focused on training and equipping units designated for deployment. From 2010 the modernization process has broadened to encompass the entire force. The Hungarian defence reform has been progressing slowly due to a serious lack of funding, and has been further impaired by the financial crisis. To enhance flexibility and deployability, the army is to shrink from three brigades to two, one of which is to be designated for collective defence and the other for crisis-management operations. Armoured and heavy-artillery units have been reduced, as have training facilities and air fields. Mechanised units are being transformed into light infantry.²³⁸

Several procurement initiatives have been delayed and equipment upgrades put in jeopardy. The army's MI-8 transport helicopters are in need of replacement within 3-4 years, whilst a decision was made to upgrade the MI-17 helicopters to allow for a further ten years of use. The MI-24s, in service for 30 years, will continue being used without any upgrades.²³⁹

3.8.3 Level of Ambition and International Engagement

During a 2003 defence review, the level of ambition was defined as a sustainable deployment of 1.000 troops, a level which has since been exceeded. The level of ambition is now set at 2.000 deployable troops,²⁴⁰ with one Brigade on duty for 6 months plus a rotating battalion or two rotating battalions. No reductions are planned as a consequence of the crisis.

About a thousand Hungarian soldiers are serving in missions in 13 countries, which in terms of the number of missions places Hungary on the third rank in terms of international engagement, after the US and UK.²⁴¹ Hungary intends to boost its mission in Afghanistan with 90 troops to secure the airport, a 40-troops platoon to watch over the election, a 56-member training team and a 35-member logistic group.²⁴²

3.8.4 Pooling and Sharing Options

²³³ Nicolas Gros-Verheyde, 'Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir', <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

²³⁴ Ibid.

²³⁵ Ibid.

²³⁶ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49.

²³⁷ Nicolas Gros-Verheyde, 'Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir', <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

²³⁸ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 49-50.

²³⁹ 'Hungary's armed forces to create jobs', *MIT-EcoNews*, 26.05.2009.

²⁴⁰ Nicolas Gros-Verheyde, 'Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir', <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

²⁴¹ 'Hungary's armed services reform provides model, says PM Bajnai', *MTI-Econews*, 21.04.2009.

²⁴² 'Hungary to send more troops to Afghanistan', *BBC*, 30.11.2010.

In late November 2010, the Hungarian Ministry of Defence expressed strong interest in cooperation with Slovakia to train Mi17-helicopter pilots. Hungarian pilots could train on a special flight simulator in Presov (Slovakia), Slovak pilots may gain experience at the Hungarian air base in Szolnok. Cooperation between Slovakia and Hungary is already ongoing with regard to pyrotechnics and bomb disposal.²⁴³ In May and June 2009 talks were also held on Hungarian-Greek and on Hungarian-Macedonian cooperation concerning military training.²⁴⁴ A paper from late 2010 confirms the need for specialization of the Hungarian army including the development of niche capabilities such as NBC defence,²⁴⁵ instead of maintaining the ambition of a full spectrum force. Cooperative divisions of labour with small nations, such as Austria, Slovakia, Finland or Belgium similarly affected by the crisis are listed as policy priority.²⁴⁶ Hungary has put the furtherance of pooling and sharing as priority onto the agenda of its EU Presidency in 2011 and intends to strengthen the Ghent-Process.

3.8.5 Defence Industry

The Hungarian defence sector, largely state-sponsored, is in overall poor condition and has suffered from the financial pressures exerted onto the government.

²⁴³ 'Hungarian army interested in Slovak flight simulator, more cooperation', *BBC*, 01.12.2010.

²⁴⁴ 'Hungary, Greece army chiefs discuss military cooperation', *MTI-EcoNews*, 18.06.2009. 'Macedonia, Hungary sign military cooperation agreement', *Xinhua News Agency*, 07.05.2009.

²⁴⁵ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 50.

²⁴⁶ Nicolas Gros-Verheyde, Sous la contrainte budgétaire, l'armée hongroise réfléchit à son avenir, <http://www.bruxelles2.eu/defense-ue/armees-europeennes/larmee-hong>, 09.01.2011.

3.9 Ireland

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	162.31	177.34	189.37	179.99	159.65	156.52
GDP per capita, euro tsd.	39.02	41.62	43.38	40.51	35.73	35.00
Gross public debt, euro bn.	44.40	44.00	47.30	79.80	104.60	152.50
Gross public debt (% of GDP.)	27.35	24.81	24.98	44.34	65.52	97.43
Net lending (+) or net borrowing (-), euro bn.	2.68	5.20	0.05	-13.15	-22.96	-50.61
Net lending (+) or net borrowing (-), % of GDP	1.65	2.93	0.02	-7.31	-14.38	-32.34
Defense budget, euro bn.	0.76	0.89	0.97	0.001	0.001	n.a.
Defense budget, % of GDP	0.47	0.50	0.51	0.001	0.001	n.a.
Military personnel						
Armed forces	10,460	10,460	10,470	10,460	10,460	10,460

3.9.1 Impact of the Financial Crisis on the Defence Budget

The defence budget for 2010 has been cut by about 10% (around €45m) in comparison to 2009. The 2010 defence budget of about €710m will be cut by another €28m in 2011.²⁴⁷ Until 2014, the budget is set to drop by further 15%, down to approx. €600m.

3.9.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

The initial timeline of Ireland's reform efforts to make the armed forces more deployable was 2000 to 2010. Its overall aim is to enhance force projection for better participation in international crisis management missions.

Force Structure and Personnel

The Irish Defence Forces comprise a Permanent Defence Force and a Reserve Defence Force. The planned reduction of the Permanent Defence Force from 11,500 to approximately 10,500 troops was achieved in 2001. The current force structure comprises 10,460 active soldiers. Four barracks were closed in 2009. The reserve force is also currently being reorganized. The government is further focusing on improving military training.²⁴⁸

On 16. July 2009, the *Special Group on Public Service Numbers and Expenditure Programmes*, also known as the McCarthy Report, made its recommendations on cuts in public spending. The Report recommended to close more barracks and to reduce Defence Forces by 500 personnel to 10,000 over the next three years. However, that number was already reached by the end of 2009 due to an unexpected rise in the early retirement rate that resulted from fears of pensions being affected by government cutbacks.²⁴⁹

Further reform efforts concentrate on developing and maintaining the infrastructure to meet the operation, training, logistical and administrative needs of the armed forces. This includes rationalization of properties, development of training areas, review of accommodation and creation of an Infrastructure Annual Plan.

²⁴⁷ Shane Coleman, 'Minister O'Dea wants state to splash out on two new naval vessels', *Sunday Tribune*, 17.01.2010.

²⁴⁸ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 69.

²⁴⁹ 'Closures of more barracks ruled out', *Irish Independent*, 19.11.2009.

Equipment and Procurement

Capability priorities include the logistics system, utility helicopters, armoured wheeled vehicles and medium-range anti-armour missiles.²⁵⁰ Despite the financial crisis, Ireland confirmed a €90m order for two high-tech new Naval Service vessels in late 2010. The two new ships – to be provided in 2014 and 2015 – will replace L.E. Emer and L.E. Aoife.²⁵¹

3.9.3 Level of Ambition and International Engagement

By 2010, the Irish level of ambition was to have 1.600 deployable troops.²⁵² The Irish Defence Forces are intended to contribute to the full range of military operations. Ireland is willing to contribute to UN peace-support operations (including peacekeeping and peace enforcement), to EU-missions within the whole spectrum of the Petersberg tasks, to Partnership for Peace crisis-management operations, to OSCE confidence and security-building measures and to international humanitarian and disaster-relief operations. To the United Nations, it intends to provide a joint-peace-support capability of 850 military personnel as part of the UN Standby Arrangement System; to the EU, one light-infantry battalion of 750 troops and to NATO/PfP, one APC infantry battalion group.²⁵³

Ireland will withdraw troops as a consequence of the financial crisis to make savings of about €7 million.²⁵⁴ The remaining 44 Irish troops in Bosnia were withdrawn by July 2010 and the 240 troops in Kosovo were scaled down to about 50 by April 2010 and withdrew by October 2010.²⁵⁵

3.10 Netherlands

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	513.41	540.22	571.77	596.23	571.98	585.73
GDP per capita, euro tsd.	31.46	33.06	34.91	36.27	34.61	35.26
Gross public debt, euro bn.	266.10	255.90	259.00	347.10	347.60	379.50
Gross public debt (% of GDP.)	51.83	47.37	45.30	58.22	60.77	64.79
Net lending (+) or net borrowing (-), euro bn.	-1.36	2.92	1.05	3.39	-30.92	-34.16
Net lending (+) or net borrowing (-), % of GDP	-0.26	0.54	0.18	0.57	-5.40	-5.83
Defense budget, euro bn.	7.67	7.91	8.36	8.09	8.73	8.55
Defense budget, % of GDP	1.49	1.46	1.46	1.36	1.53	1.46
Military personnel						
Armed forces	46,330	46,330	46,330	38,808	40,537	40,804
Gendarmerie	6,800	6,800	6,800	6,800	5,953	6,078

3.10.1 Impact of the Financial Crisis on the Defence Budget

The new coalition government intends to make consolidation efforts of €18bn at national level by 2015. Different scenarios involving cuts between €400m to €2.1bn for the defence ministry in 2011 are being discussed.²⁵⁶ The base defence budget for 2011 lies at €8.4bn. Even without upcoming cuts, the new cabinet's defence spending was intended to decrease to €8.1bn by 2015.²⁵⁷

3.10.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

²⁵⁰ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 69.

²⁵¹ 'Navy set to put in €90 million in order for two 'vital' new ships', *Irish Independent*, 03.09.2010.

²⁵² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

²⁵³ Op.cit. p. 69.

²⁵⁴ 'Troops numbers drop to save €7 million', *Irish Independent*, 10.12.2009.

²⁵⁵ Shane Coleman, 'Minister O'Dea wants state to splash out on two new naval vessels', *Sunday Tribune*, 17.01.2010.

²⁵⁶ 'Dutch military plans to cut 10.000 jobs', *Reuters News*, 19.11.2010.

²⁵⁷ Christopher Catelli, 'Dutch to buy second JSF test aircraft, cut defense by €600 million', *Inside the Pentagon*, 07.10.2010.

The current reform process of the Dutch armed forces started in 2003. Conscription was abolished in the late 1990s. The government set out its reform agenda in a Defence Budget and Policy Letter to Parliament, updated in 2006 and 2007.²⁵⁸ The Dutch armed forces have three main tasks: territorial defence, contributing to international crisis-management missions and supporting civil authorities in case of disasters or emergencies. In practice, however, making forces available to support international peace and stability missions has evolved into their main role.²⁵⁹ The concentration on operations and improving performance has been to a large extent shaped by the Dutch experience in Afghanistan.

Force Structure and Personnel

The Dutch armed forces stand at the end of their reform process that has aimed to improve their deployability and interoperability with allies. Current plans are due to be completed in 2012. The planned all-professional force structure for 2012 comprises 51,000 active forces.²⁶⁰ Significant cuts had been made before the crisis, and an increase in personnel of about 10% was expected.²⁶¹

The Dutch government announced in November 2010 that it intends to cut 10,000 defence ministry jobs by 2015 while also introducing extensive spending cuts. A detailed plan about the military's future strategy and the measures taken will be announced in Spring 2011 with compulsory layoffs a possibility.²⁶² The budget for training is also expected to be cut by €5m per year until 2014. Even with the lowest amount of cuts being enacted, the armed forces' ability for international deployment would be seriously hampered. Two brigades would need to be closed, the Navy and Air Force would suffer significant cuts in capabilities and up to 24,000 jobs cuts would be necessary.

Equipment and Procurement

The Dutch armed forces have recently shed some *Leopard II* main battle tanks, some PzH-2000 self-propelled howitzers and 18 F-18 fighter aircraft as well as Orion maritime patrol aircraft. Several other planned initiatives, such as Dutch participation in NATO's Alliance Ground Surveillance project and procurement of Tomahawk cruise missiles and medium-altitude, long-endurance UAVs, have been scrapped. Other planned investments such as frigates, a joint logistics support ship, patrol vessels, F16 self-protection capabilities, infantry fighting vehicle Boxer, the combat vehicle CV-90 and brigade-laying tanks, have been postponed.²⁶³ Orders for the Mortar-Tracking-Radar-Project or the Apache helicopter will be reduced.

Certain capability priorities of immediate importance for current operations such as force protection, tactical air transport, the NH-90, additional C-130 transport planes or the modernization of the remaining Dutch F-16s and investment in satellite communications and command and control continue to benefit from funding.²⁶⁴

Dutch F-16 aircraft need replacement. The new coalition has committed to buying a second JSF test aircraft in 2011 to participate in operational testing but has made no commitment beyond that test asset as a means to achieve defense budget cuts. The investment into the JSF to date make it unlikely that any other option but the JSF will be chose to replace the aging F-16s.²⁶⁵ Around 50 Dutch firms depend on the contracts worth close to €3bn.

²⁵⁸ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 53.

²⁵⁹ Ibid.

²⁶⁰ Op.cit., p. 55.

²⁶¹ Ibid.

²⁶² 'Dutch military plans to cut 10.000 jobs', *Reuters News*, 19.11.2010; Blanka Kolenikova, 'Dutch government to Introduce Extensive Defence Spending Cuts', *HIS Global Insight Daily Analysis*, 19.11.2010.

²⁶³ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 53.

²⁶⁴ Ibid.

²⁶⁵ Christopher Catelli, 'Dutch to buy second JSF test aircraft, cut defense by €600 million', *Inside the Pentagon*, 07.10.2010.

3.10.3 Level of Ambition and International Engagement

The level of ambition foresees a deployment at brigade level, and two squadrons of fighter jets or a maritime task force on high-intensity missions sustainable for up to one year. In addition, three battalion-sized task groups (or air and naval equivalents) can be provided for low-intensity missions over a prolonged period of time. Special Operations personnel can be provided for evacuation and counter-terrorism purposes.²⁶⁶

The previous coalition government broke apart in February 2010 over whether or not to extend the Dutch four-year mission in Afghanistan. The Netherlands has consequently pulled out most of its 2,000 troops since August 2010. The new coalition government is planning on sending a new training mission to Afghanistan from mid-2011 to mid-2014. A total of 545 troops will be deployed, including 225 police and military trainers, 125 soldiers, 120 air force soldiers and support staff for four F-16 fighter planes and 70 specialists for military command centers. Costs are estimated to be € 468 million for the total duration of the mission.²⁶⁷

3.10.4 Pooling and Sharing Options

The Netherlands are a long-time advocate of closer defence cooperation, for instance through pooling and sharing of capabilities- over the 1990s mostly through NATO. France, Germany, Belgium and the Netherlands recently put 200 transport aircraft under a single command at an air-base in the Dutch city of Eindhoven.²⁶⁸ With the re-sell to Germany of the maritime air patrolling plane P3 Orion, the Netherlands even fully abandoned capabilities in this domain. It remains unclear to date whether The Hague is interested in further cooperative steps in the wake of the financial crisis.

3.11 Portugal

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	153.73	160.27	168.74	172.10	168.08	171.38	
GDP per capita, euro tsd.	14.57	15.14	15.91	16.20	15.81	16.09	
Gross public debt, euro bn.	94.80	102.40	105.90	112.40	127.90	141.90	
Gross public debt (% of GDP.)	61.67	63.89	62.76	65.31	76.10	82.80	
Net lending (+) or net borrowing (-), euro bn.	-9.10	-6.49	-4.67	-5.04	-15.70	-12.55	
Net lending (+) or net borrowing (-), % of GDP	-5.92	-4.05	-2.77	-2.93	-9.34	-7.32	
Defense budget, euro bn.	1.92	1.91	1.88	1.79	1.82	1.97	
Defense budget, % of GDP	1.25	1.19	1.11	1.04	1.08	1.15	
Military personnel	Armed forces	44,900	44,900	43,960	42,910	42,910	43,330
	Gendarmerie	47,700	47,700	47,700	47,700	47,700	47,700

3.11.1 Impact of the Financial Crisis on the Defence Budget

The Stability and Growth Plan adopted in the wake of the financial crisis has imposed significant restrictions on the defence sector. The Defence Ministry's budget is due to be reduced by about 11%.²⁶⁹ It imposes an annual cut of 40% by 2013 on funds for the modernization of the armed forces. In order to structure these cuts, the Military Planning Law was revised in 2010, making the purchase of some new equipment for the Armed Forces conditional on the previous sale of used materiel and prohibiting the signing of new contracts.²⁷⁰ In 2010, the investment part of the defence budget was cut von €413m to

²⁶⁶ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 53.

²⁶⁷ 'Dutch plans police training mission to Afghanistan', *Reuters News*, 07.01.2011.

²⁶⁸ Henry Chu, 'Defense cuts may downsize Europe's clout', *Los Angeles Times*, 05.12.2010.

²⁶⁹ Barry Hatton, 'Portuguese spy chief quits ahead of NATO summit, reportedly angered by spending cuts', *Associated Press*, 18.11.2010.

²⁷⁰ 'Portuguese budget cuts hit defence spending', *BBC*, 30.03.2010.

€248m. Further savings in investment expenses of up to €502m are planned until 2013. The main measures adopted in the MoD are a freeze on promotion applicable both to public service employees and to the armed forces in 2011; a one-off cut in the number of servicemen and women recruited (3000 less than in 2010); and a 40% cut in the Military Funding Programme, with plans under way to suspend new procurement until 2013.²⁷¹

3.11.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

Despite still bearing the marks of its historical past as power-projecting maritime power, Portugal's threat assessment is based on the appraisal of a diffuse security environment characterized by international terrorism, the proliferation of WMD, failed states and organised crime.²⁷² A fundamental defence-reform decision was taken in 1999 when the Military Service Law called for a fully professional force by 2003. Conscription formally ended in 2004. The armed forces were to be reduced by over 40% from 43,330 soldiers today to a target of some 40,500.

Force Structure and Personnel

A hiring freeze holds for openings due to retirement or end of contracts, which has led to the hiring quote lying below the rate of force generation in 2010. As of January 2011, pays were lowered by up to 10% in the public sector, which is expected to yield savings of €1bn as well as a reduction of the national deficit by 0.6% in 2011.

The overall goal of the reform process is to create a joint, modular and technologically advanced force. The armed forces are expected to operate across the full spectrum of tasks rather than specialize in particular capabilities.²⁷³ Principal means include a re-equipment and modernization programme, the restructuring of the force, downsizing and selling of surplus equipment. The traditional territorial command structure has been replaced with a centrally organized regiment structure. The key elements in this new land-force structure are three combat brigades: a mechanized brigade; an airborne rapid-intervention brigade and an intervention brigade.

Equipment and Procurement

The Military Planning Law (MPL) from 2006 stated that €290m would be obtained from the sale of military equipment during the first six year period of this law. The equipment in question was 10 F-16 fighter jets, 4 Puma helicopters, 14 Aviocar transport planes, 56 M60 tanks, 2 Joao Belo frigates and ammunition.²⁷⁴ Expected revenues turned out to be only one third of what was initially expected, as the sale of the equipment did not take place as hoped, with the exception of the frigates sold to Uruguay for about €13m.²⁷⁵ The MPL shows a deficit close to €273m of a total of €2.12bn for the period 2006-2011.

According to a revised MPL, the following programmes will be delayed until at least €110 million have been obtained from sales: Parts for the new coastguard launchers for the Navy (LCF), the purchase of 18 Leopard 2A6 tanks for the Army, 6 light helicopters (to replace the Alouette III) for the Air Force and 1 Lynx helicopter for the Navy.²⁷⁶ The review of the MPL also discussed the suspension of the delivery of NH90 helicopters that was planned to start in 2012.²⁷⁷ The programme of light tactical armoured 4x4

²⁷¹ Ministry of Finance and Public Administration, Portuguese State Budget for 2011—Summary Report, Budget Consolidation Strategy in 2011, October 2010, Lisbon, S. 24.

²⁷² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 58.

²⁷³ Ibid.

²⁷⁴ 'Portuguese military purchases subject to sale of used materiel', *BBC*, 01.05.2010.

²⁷⁵ Ibid.

²⁷⁶ Ibid.

²⁷⁷ 'Portugal considers delaying receipt of NH90 helicopters', *BBC*, 23.04.2010.

vehicles for the army will be suspended as part of this effort.²⁷⁸ Cuts were also made in the training budget.

Programmes in turn considered too essential to be subjected to sales are: the new light weaponry, light helicopters and four-wheeled armoured vehicles for the Army; a new multi-role support ship for the Navy and the modernization of the C130 planes for the Air Force.²⁷⁹

Despite cuts, the Portuguese government will press on with the modernization of the Air Force, which involves investment of over €1.5bn, two third of which have not yet been spent.²⁸⁰ Compliance with existing contracts for the modernization of F-16s and P3C Orion, will be offset through a hiring freeze until 2013 concerning 1,300 temporary regular soldiers and 1.300 non-career soldiers.

3.11.3 Level of Ambition and International Engagement

While there is no official level of ambition in relation to participation in international crisis-management missions, the maximum contribution is three battalions in up to three missions. Portugal's international commitments (KFOR, ISAF, UNIFIL) will be kept up but reduced. The 150 Special Operations troops engaged in Afghanistan were withdrawn in December 2010. A capacity build-up of around 30 soldiers is planned for training and medical assistance. The 296 troops stationed in Kosovo since 2007 will be halved in May 2011 as the security situation is considered to have improved significantly. No changes are foreseen to the Portuguese presence in Lebanon (145 soldiers). Portugal seeks to take part to the best of its abilities in EU-led operations (Atalanta, Althea, EUTM, EUSEC RD Congo), but its priority lies with NATO- or UN-missions.

3.11.4 Pooling and Sharing Options

Neither pooling, sharing nor extended defence cooperation at European level have to date been on the political agenda in Portugal. Accordingly, little attention is being paid to the Ghent Process.

3.11.5 Defence Industry

A state-led consolidation of the defence sector was achieved ten years ago. The resulting holding 'Empresa Portuguesa de Defesa SGPS S.A.' (EMPORDEF) is focused on aerospace, software and simulation, weapons and munitions as well as maintenance and modernization. Additional capabilities can be found in the field of naval construction, with the semi-public shipyard Estaleiros Navais de Viana do Castelo (ENVC). Keeping up national industrial capabilities is a priority to the current government.

²⁷⁸ 'Portuguese budget cuts hit defence spending', *BBC*, 30.03.2010.

²⁷⁹ 'Portuguese military purchases subject to sale of used materiel', *BBC*, 01.05.2010.

²⁸⁰ 'Portugal to modernize air force despite cut', *BBC*, 07.10.2010.

3.12 Romania

	2005	2006	2007	2008	2009	2010	
GDP, euro bn.	79.80	97.75	124.73	139.76	115.87	121.68	
GDP per capita, euro tsd.	3.69	4.53	5.79	6.50	5.40	5.68	
Gross public debt, euro bn.	12.40	12.59	14.49	17.09	27.67	36.96	
Gross public debt (% of GDP.)	15.54	12.88	11.62	12.23	23.88	30.37	
Net lending (+) or net borrowing (-), euro bn.	-0.92	-2.19	-3.23	-8.02	-10.00	-8.90	
Net lending (+) or net borrowing (-), % of GDP	-1.16	-2.24	-2.59	-5.74	-8.63	-7.32	
Defense budget, euro bn.	1.57	1.88	2.29	2.26	2.32	1.93	
Defense budget, % of GDP	1.96	1.93	1.83	1.62	2.00	1.58	
Military personnel	Armed forces	97,200	97,200	69,600	74,267	73,200	73,350
	Gendarmerie	79,900	79,900	79,900	79,900	79,900	79,900

3.12.1 Impact of the Financial Crisis on the Defence Budget

The Romanian defence budget for 2010 went down from 2.5% GDP in 2009 to 1.3% of GDP (€1.8bn), representing a 13% cut.²⁸¹ The budget in 2011 is planned to be at 1.8% of GDP. No funds have been attributed to the investment budget since 2009 and this trend will not change in 2011 as no new procurement will be possible until 2014—according to Romania's President Traian Basescu (December 2010). Romania's dependency on international financial contributions from the IMF—much like that of Ireland, Greece and Portugal—is severely limiting the government's leeway.

3.12.2 Armed Forces: Structural Reforms in Light of Recent Budgetary Cuts

No major conventional threat is identified in Romania's threat assessment in the medium term. Besides highlighting the threats emanating from regional instability, failed states, the proliferation of WMD, international terrorism, or migration, the Romanian threat perceptions also name domestic factors related to economic and social problems with potentially destabilizing effects on the political system.²⁸²

Force Structure and Personnel

The government is developing niche capabilities: In cooperation with the US it is building up a special forces battalion designed to represent its niche expertise in future NATO missions.²⁸³ The transformation of the Romanian armed forces has been suspended in Fall 2010 until further notice, due to the budgetary pressure exerted by the financial crisis.

Almost 80% of the Romanian defence budget is spent on salaries and pensions, with only about 20% remaining for missions at home and abroad.²⁸⁴ Pay cuts of up to 25% in the public sector have hit the military and defence industry particularly hard.

Equipment and Procurement

The seven strategic procurement programmes running since 2007 to complete achievement of NATO standards will also be suspended. Basescu does not count on their fulfillment before 2025. The equipment of the armed forces is by and large leased by the US.

²⁸¹ Robert Wall, Douglas Barrie, Andy Nativi, 'Defense Budget Blades: Defense spending starts to catch the edge of European budget cuts', *Aviation Week & Space and Technology*, Vol. 172, Issue 22, 7.6.2010.

²⁸² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 59.

²⁸³ *Ibid.*

²⁸⁴ 'Romanian Army's Financial Situation Close to "Breakdown"', *BBC*, 26.04.2010.

In March 2010, Romania had announced its decision to purchase 24 F-16 aircraft currently used by the US Air Force at a cost of €1.1bn in order to replace its ageing Soviet-made MIG-Lancer jets incompatible with NATO missions. The Romanian Air Force planned to remove these from service between 2010 and 2012.²⁸⁵ Finance Minister Sebastian Vladescu stressed that crisis-hit Romania cannot afford to purchase these second-hand F-16.

The deal had triggered criticism from European groups Eurofighter and Saab, which stressed authorities should have issued a call for tenders.²⁸⁶ The Swedish company that offered Romania the Gripen planes and the Eurofighter group later proposed financial packages that were more flexible than the one proposed for the F-16. The resumed competition for the multi-purpose planes now offers Bukarest important offset offers and technological changes meant to stimulate the development of the Romanian aeronautical industry.²⁸⁷

3.12.3 Level of Ambition and International Engagement

Romania seeks to be a reliable NATO-partner and currently ear-marks around 1,750 soldiers for international deployments. The number is intended to increase to 2,000 in 2011. In August 2010, additional funds were made available to the Romanian armed forces to secure its continued military participation in Afghanistan.²⁸⁸

3.12.4 Pooling and Sharing Options

Pooling and sharing are currently not options considered, despite repeated suggestion by NATO military attachés. No interest with regard to the Ghent process is to be noted.

3.12.5 Defence Industry

The Romanian defence industry is made up to almost 100% out of national champions, with a very limited productivity already before the financial crisis, whose employees remain paid on a minimum wage.

4 CATEGORY C

4.1 Cyprus

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		13.66	14.67	15.95	17.25	16.95	17.46
GDP per capita, euro tsd.		18.02	18.99	20.35	21.75	21.24	21.72
Gross public debt, euro bn.		9.49	9.44	9.26	8.35	9.83	10.86
Gross public debt (% of GDP.)		69.48	64.33	58.05	48.41	58.01	62.21
Net lending (+) or net borrowing (-), euro bn.		-0.33	-0.18	0.54	0.16	-1.01	-1.04
Net lending (+) or net borrowing (-), % of GDP		-2.42	-1.19	3.38	0.91	-5.97	-5.93
Defense budget, euro bn.		0.31	0.24	0.36	0.22	0.64	n.a.
Defense budget, % of GDP		2.23	1.65	2.25	1.27	3.80	n.a.
Military personnel	Armed forces	10,000	10,000	10,000	10,000	10,000	10,050
	Gendarmerie	750	750	750	750	750	750

²⁸⁵ *Forecast International Defense Intelligence Newsletters*, 'Romanian Defense Body Green-Lights Second-hand F-16 Purchase', 24.03.2010.

²⁸⁶ 'Romania cannot afford buying F-16 Jets Now', *Agence France Presse*, 11.06.2010.

²⁸⁷ 'Paper says USA 'not angry' with Romania for not buying warplanes', *BBC*, 07.08.2010.

²⁸⁸ 'Romanian Defence Ministry gets extra money for operations in Afghanistan', *BBC*, 20.08.2010.

Cyprus' threat perceptions focus on the presence of Turkish troops in northern Cyprus as well as on transnational risks. The financial crisis has not conditioned any cuts in the Cypriot defence budget. In 2011 some shifts in spending are planned to advance the professionalization of the armed forces and to set priorities in procurement (esp. air defence). The defence budget for 2011 is at €360m and has increased by around €20m from 2010. The timeline for reforms remains unclear. Its overall aim, driven in part by EU commitments, is to develop niche capabilities, to strengthen deterrence and transform its national guard into semi-professional forces. Reforms are pursued via more spending efficiency, a decrease in the proportion of conscripts and reserves, increases in the number of professional soldiers and the modernization of equipment. Key capabilities are SAR, new training facilities and used MBTs.²⁸⁹ No changes to current international engagements (UNIFIL, Somalia, ATALANTA) nor to NATO and EU engagements are planned to date. Pooling and Sharing are cooperation options not currently discussed.

4.2 Estonia

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		11.18	13.39	15.83	16.11	13.86	14.18
GDP per capita, euro tsd.		8.30	9.96	11.79	12.01	10.34	10.58
Gross public debt, euro bn.		0.51	0.59	0.59	0.74	0.99	1.14
Gross public debt (% of GDP.)		4.57	4.41	3.74	4.60	7.15	8.04
Net lending (+) or net borrowing (-), euro bn.		0.18	0.33	0.40	-0.46	-0.24	-0.15
Net lending (+) or net borrowing (-), % of GDP		1.61	2.45	2.54	-2.84	-1.73	-1.03
Defense budget, euro bn.		0.16	0.19	0.25	0.29	0.26	0.26
Defense budget, % of GDP		1.45	1.41	1.59	1.82	1.87	1.85
Military personnel	Armed forces	4,934	4,934	4,100	4,100	5,300	4,750
	Gendarmerie	2,600	2,600	2,600	2,600	2,100	n.a.

Estonia's declared threat perceptions are asymmetric threats as well as a crisis in Estonia's vicinity.²⁹⁰ Despite events in Georgia and a series of Russian cyber attacks on the government's computer network, Estonia has also been forced to cut its defence budget with resulting cuts in both salaries and procurement.²⁹¹ As a result of the global financial crisis, in June 2009, the Estonian Ministry of Defence revealed a €2m cut in the defence budget from €306m in 2008 to €303m in 2009.²⁹² The Estonian defence budget for 2011 will amount to €7.8m or 1.9% of GDP.²⁹³

Reforms of the armed forces started in 2004 with its accession to the EU and NATO and were predicted to last until 2010. Core aims of the reforms are to improve host nation support capacity as well as to develop rapid reaction capabilities to enhance its ability to operate international crisis management missions as well as Estonia's credibility within NATO. The level of ambition is defined as a sustainable deployment of one infantry company, special forces platoon, several military observers, a staff element and two vessels. By 2008, Estonia has sought to attain 250 troops for sustainable missions, rising to 350 by 2010.²⁹⁴

²⁸⁹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 34.

²⁹⁰ Ministry of Defence of the Republic of Estonia, *National Security Concept of Estonia*, May 2010, p.7.

²⁹¹ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol.110: 1, p.115.

²⁹² NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial_crisis>

²⁹³ Estonian Ministry of Finance, Brief Overview of the State Budget for 2011, 23.09.2010, Tallinn, p.2.

²⁹⁴ Ministry of Defence of the Republic of Estonia, *National Military Strategy: Annex to the Government of the Republic Regulation No.10* from 18 January 2005 on Implementation of the National Military Strategy (unofficial translation), Tallinn, 2005, §51. <<http://www.mod.gov.ee/?op=body&id=369>>

Estonia aims to have high standard capabilities in several key areas, especially in army and naval units to take part in international cooperation. For the army, equipping an infantry brigade with organic combat support and combat service support is key. The navy is to focus on mine warfare, including countermeasures and mine-laying, as well as refurbishment of a naval base. The air force is focused on surveillance tasks within the framework of a joint Baltic system (BALNET) and on provision of host-nation support arrangements similar to the navy's.²⁹⁵ Key mechanisms for reform are specialization and the implementation of a tier-structure for forces. Improving capabilities such as air surveillance, CS and CSS, Host Nation Support, and mine warfare, the development of Ground Based Air Defence Capabilities, development of tactical transport helicopter capabilities are set priorities.

In January 2009, the new Defence Development Plan for 2009-2018 was adopted, which seeks to strengthen Estonia's national defence capability and that country's capacity to contribute to international security. The 2007-2010 budget plan identifies the following procurement priorities: €640m for the development of modern, multipurpose and quickly reacting military components; €80m for two multipurpose ships, renovation of the Kati, a spill response vessel, and other critical equipment; and, €120m to participate in NATO integrated air safety system and to develop an air-policing airport in Amari that meets minimum requirements.²⁹⁶

Estonia has pledged an infantry battalion, military police units, an explosive ordnance disposal (EOD) group, two mine countermeasure vessels and one mine-countermeasure support vessel for international operations.²⁹⁷ More specifically, mine-countermeasure capabilities, military police and the EOD group have been made available to the NRF. Estonia is participating in the EU's Swedish-led Nordic Battlegroup with infantry, medical and logistics units and staff elements in 2008.²⁹⁸

The economic crisis has also spurred movement towards joint defence procurement among Latvia, Lithuania, and Estonia. Officials from the three countries are seeking to harmonize their national procurement plans in order to eliminate differences in the armament and equipment contributed by each country.²⁹⁹

The Ghent Initiative is welcomed: Estonia is keen on identifying value-added, pragmatically implementable solutions for pooling and sharing. Estonia also supports the activities of the Weimar triangle, amongst other things because it is currently looking into joint procurement options with Poland. Military cooperation with its Nordic and Scandinavian partners Sweden, Finland, Norway, but also with Ireland were strengthened in past years. Cooperation with its Baltic neighbours has remained strong, especially concerning air-policing tasks through NATO partners and ensuing compensation and support plans (Host Nation Support, training opportunities for NATO troops).

On 15th December, Estonia and the UK concluded a framework agreement on joint acquisition of defence equipment, opening the road for information-sharing on defence, arms or munitions acquisitions planned or contemplated. Estonia signed similar agreements with Sweden and Germany.³⁰⁰ Estonia does not plan on reducing its contributions to international missions (e.g. ISAF, ATALANTA) and its NATO and EU military commitments.

²⁹⁵ Ministry of Defence of the Republic of Estonia, *Estonian Defence Forces 2003-2006*, Tallinn, 2003.

²⁹⁶ Jane's Sentinel Country Risk Assessment, quoted in: NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, < <http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial.crisis> >

²⁹⁷ Ministry of Defence of the Republic of Estonia, *Estonian Defence Forces 2003-2006*, Tallinn, 2003, p. 15.

²⁹⁸ 'Major Landmarks in Estonian Security and Defence Policy in 2006', *Baltic Security and Defence Review*, Vol. 9, 2007, pp.273-278.

²⁹⁹ Tomas Jermalavicius, 'Baltic defence cooperation during economic crisis: between symbolism and substance', *International Centre for Defence Studies, Diplomaatia*, < <http://blog.icds.ee/contact/baltic-defence-cooperation-during-economic-crisis-between-symbolism-and-substance> >

³⁰⁰ *European Diplomacy and Defense* No.377, 21.12.2010, p.2.

4.3 Latvia

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		13.01	16.05	21.11	23.04	18.54	17.84
GDP per capita, euro tsd.		5.66	7.01	9.28	10.17	8.22	7.95
Gross public debt, euro bn.		1.61	1.71	1.91	4.49	6.77	8.11
Gross public debt (% of GDP.)		12.37	10.66	9.05	19.49	36.52	45.47
Net lending (+) or net borrowing (-), euro bn.		-0.05	-0.07	-0.07	-0.96	-1.90	-1.38
Net lending (+) or net borrowing (-), % of GDP		-0.39	-0.46	-0.32	-4.16	-10.25	-7.73
Defense budget, euro bn.		0.22	0.25	3.18	0.37	0.24	0.19
Defense budget, % of GDP		1.68	1.57	15.07	1.61	1.31	1.06
Military personnel	Armed forces	5,238	5,238	5,339	5,696	5,187	5,745
	Gendarmerie	n.a.	n.a.	n.a.	11,034	11,034	n.a.

Latvia's military posture focuses on asymmetric threats and interestingly does not allude to a perceived threat emanating from Russia as do its neighbours Estonia or Lithuania.

In Latvia, the government was forced to approach the IMF for emergency financing in return for implementing an austerity budget. The reduction in state spending resulted in a 21% cut in the 2009 defence budget.³⁰¹

The reform of the armed forces has begun in 2000 and is planned to be carried out until 2012. Its main aim is to improve contributions to NATO and international missions. Key reform mechanisms are the transformation of the armed forces to an all-professional force that will be expanded to attain up to 750-1000 troops for sustainable operations. The Latvian armed forces are also undergoing restructuring and specialization of the services. Capability priorities encompass C4, mobility, deployability, sustainability and effectiveness.³⁰²

The defence cuts led to a temporary pause in the 12-year, long-term defence plan implemented in 2001, designed to produce a professional, highly competent force providing niche capabilities in the areas of medical response, military police and engineering support. In order to continue with its commitment in Afghanistan, Latvia will end its participation in NATO- and EU-led military missions in Kosovo and Bosnia-Herzegovina.³⁰³

³⁰¹ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol.110: 1, p.115.

³⁰² Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

³⁰³ International Institute for Strategic Studies, 'Chapter Three: Europe', *The Military Balance*, Vol.110: 1, p.115.

4.4 Lithuania

		2005	2006	2007	2008	2009	2010
GDP, euro bn.		20.87	23.98	28.58	32.29	26.51	26.89
GDP per capita, euro tsd.		6.11	7.06	8.47	9.61	7.94	8.17
Gross public debt, euro bn.		3.85	4.33	4.84	5.03	7.81	10.06
Gross public debt (% of GDP.)		18.45	18.06	16.94	15.58	29.46	37.41
Net lending (+) or net borrowing (-), euro bn.		-0.10	-0.11	-0.29	-1.06	-2.43	-2.25
Net lending (+) or net borrowing (-), % of GDP		-0.50	-0.45	-1.01	-3.29	-9.18	-8.36
Defense budget, euro bn.		0.27	0.28	0.33	0.37	0.34	0.21
Defense budget, % of GDP		1.27	1.17	1.16	1.15	1.27	0.80
Military personnel	Armed forces	13,510	13,510	12,010	13,850	8,850	8,850
	Gendarmerie	15,140	14,600	14,600	14,600	14,600	14,600

Lithuania perceives threats emanating from Russia's military capabilities in its immediate vicinity as well as from asymmetric threats. Reforms of the armed forces began in 2002 and are scheduled to finish by 2014. Reforms seek to restructure forces and increase the number of professional soldiers (up to 1000 troops for sustainable operations by 2015). Capability priorities are strike effectiveness, deployability, sustainability, survivability and C2.³⁰⁴ The Lithuanian government seeks to increase its contributions to international crisis management to address its threat perceptions and abide with NATO obligations.

Lithuania cut its 2009 budget by 9% -first defence cuts since 1999. Defence spending was 1.2% of GDP in 2009- the lowest of any NATO country but Lithuania is also in the midst of one of the steepest economic decline among NATO members.³⁰⁵ The defence budget was cut by a further 36% in 2010. As a result of such dramatic cuts the Ministry of Defence has been forced to cancel its plan to reintroduce national military conscription (resurrected in reaction to the 2008 Russia-Georgia war); withdraw forces from overseas missions such as Kosovo; impose salary reductions for officers; cut training schedules; and defer payments, though some procurement programmes have been unaffected. Programmes that will still proceed include the delivery of a final C-27J transporter, a third StanFlex 300 patrol ship, two ex-Royal Navy mine-hunters, off-road trucks and rifles.

However, as funding for these items will wipe out the chance of any further purchases in the medium term, Lithuania has stepped up its consultations with its Baltic neighbours and Poland in an effort to pool resources for joint procurements to economize and drive down operating costs.

The new budget will reduce spending for light arms and surveillance equipment by 8.5% (€35m), personnel supplies by 6%, maintenance by 16.7%, communications by 7.5%, transportations by 20.8%, and facilities maintenance by 68.8%.

³⁰⁴ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

³⁰⁵ NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <<http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial.crisis>>

4.5 Luxembourg

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	30.28	33.92	37.49	39.64	38.04	40.29
GDP per capita, euro tsd.	65.15	71.83	78.14	81.21	76.50	79.80
Gross public debt, euro bn.	1.84	2.27	2.50	5.40	5.53	7.32
Gross public debt (% of GDP.)	6.07	6.68	6.67	13.61	14.53	18.16
Net lending (+) or net borrowing (-), euro bn.	n.a.	0.46	1.39	1.18	-0.27	-0.71
Net lending (+) or net borrowing (-), % of GDP	n.a.	1.35	3.70	2.98	-0.72	-1.76
Defense budget, euro bn.	0.21	0.20	0.26	0.12	n.a.	n.a.
Defense budget, % of GDP	0.69	0.60	0.70	0.30	n.a.	n.a.
Military personnel	Armed forces	900	900	900	900	900
	Gendarmerie	612	612	612	612	612

Luxembourg's defence budget for 2011 amounts to €71.5m.³⁰⁶ Luxembourg seeks to increase contributions to crisis management missions and is specifically driven by international missions. Key mechanisms for reform are the reform of the military command and training center as well as the modernisation of equipment and joint procurement. Capability priorities are C3, air- and sealift, vehicles as well as small arms and ammunition. The level of ambition and time frame of reforms remain unspecified.³⁰⁷

Due to its limited resources, Luxembourg places a special focus on developing niche capabilities. Increases in its internationally deployable military capabilities such as reconnaissance for NATO and EU missions are its key priority. The military and training structure is being revamped. A new military center was set up in 1997 (Centre Militaire de Diekirch), which comprises a headquarter, two operational companies (incl. reconnaissance and anti-tank units), administrative units, logistics support and one military academy.³⁰⁸

4.6 Malta

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	4.79	5.13	5.48	5.74	5.75	6.11
GDP per capita, euro tsd.	11.88	12.63	13.40	13.40	13.92	14.77
Gross public debt, euro bn.	3.36	3.25	3.38	3.38	3.95	4.30
Gross public debt (% of GDP.)	69.99	63.41	61.66	61.66	68.65	70.44
Net lending (+) or net borrowing (-), euro bn.	-0.14	-0.14	-0.12	-0.12	-0.22	-0.26
Net lending (+) or net borrowing (-), % of GDP	-2.96	-2.96	-2.28	-2.28	-3.77	-4.19
Defense budget, euros	20mio	20mio	10mio	10mio	40mio	n.a.
Defense budget, % of GDP	0.34	0.34	0.25	0.25	0.63	0.61
Military personnel	Armed forces	2,237	2,237	1,609	1,609	1,954

Malta remains militarily non-aligned and perceives no imminent conventional threat to national security. International terrorism, migration, human- and drug-trafficking and the potential spill-over of

³⁰⁶ Memorial, Journal Officiel du Grand-Duché de Luxembourg, A-No.249, 31.12.2010, Section 01.06 Défense Nationale, S. 4291

³⁰⁷ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 36.

³⁰⁸ Op.cit., p. 53.

instability from failed states, however, represent Malta's primary perceived threats.³⁰⁹ Given the small size of its population and economy, resources for defence remain limited. There is no Defence Ministry.

The chief missions of Malta's armed forces are peacetime security missions, territorial defence, crisis management and peace-time diplomacy. Malta pursues a reform of its armed forces to counter asymmetric threats on the basis of existing capabilities (infantry platoon plus headquarters element for EU missions). Its overall goal is to strengthen peacetime security missions in the Mediterranean. Malta's reforms are thus chiefly driven by its immediate security environment and seek to focus on the modernization of existing capabilities (Special Operation Forces and maritime patrols).³¹⁰

4.7 Slovakia

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	38.49	44.57	54.90	64.57	63.05	65.97
GDP per capita, euro tsd.	7.14	8.27	10.17	11.94	11.64	12.18
Gross public debt, euro bn.	13.40	14.70	16.32	18.62	22.33	27.76
Gross public debt (% of GDP.)	34.82	32.98	29.72	28.84	35.42	42.08
Net lending (+) or net borrowing (-), euro bn.	-1.08	-1.41	-0.99	-1.35	-5.00	-5.43
Net lending (+) or net borrowing (-), % of GDP	-2.81	-3.17	-1.81	-2.09	-7.93	-8.23
Defense budget, euros	70,000	80,000	80,000	100,000	n.a.	n.a.
Defense budget, % of GDP	0.00017	0.00017	0.00015	0.00015	n.a.	n.a.
Military personnel						
Armed forces	20,195	20,195	15,223	17,129	17,445	16,531

Slovakia virtually rules out a direct threat against its national territory, but considers WMD terrorism, failed states, regional conflicts, organized crime, vulnerability of data and communication systems, illegal migration, ethnic conflicts and natural disasters as potential threats to its security.³¹¹

After a major indent in defence expenditure in 2007, the defence budget was corrected upwards again by 11% from the year before and has remained roughly correlated to economic performance since then. In 2009, the defence budget was cut by about €100m as a direct consequence of the financial crisis. A recovery expected for 2010 did not materialize and no increases in defence spending are expected before 2012. These increase will in all likelihood represent only a modest return to pre-recession levels.³¹²

The defence budget for 2011 amounts to €76m, which corresponds to a drop of €6.3m from 2010. The Defence Ministry has already delayed plans to purchase new aircrafts, and the government recently announced it will seek savings of almost €332 million across the public sector.³¹³

Reforms of the Slovak armed forces started in 2001 and are scheduled to last until 2015. Its main thrust is move away from territorial defence and to downsize force levels to achieve a smaller force with increased forces projection capacity to be a more reliable partner in international missions.³¹⁴ Slovakia places emphasis on providing niche capabilities.³¹⁵ By 2015, Slovakia aims to be able to field up to 900-1,150 troops, for ad hoc high intensity operations under NATO collective-defence provisions (up to

³⁰⁹ Op.cit., p. 69.

³¹⁰ Op.cit., p. 36.

³¹¹ Op.cit., p. 60.

³¹² Defence budget (Slovakia), *Jane's Sentinel Security Assessment—Central Europe and the Baltic States*, February 2011.

³¹³ NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <<http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial.crisis>>

³¹⁴ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 38.

³¹⁵ Op.cit., p. 60.

brigade size), for crisis-management operations under NATO or EU command (battalion-sized contribution) and for long-term, small-scale humanitarian missions and peace support operations (company sized).³¹⁶ Slovakia's reforms are based on the development of an all-professional force, equipment modernization and improved training. Its priorities are Communication and Information Systems, lift, improved logistics, and armoured vehicles.

Since mid-2008, Slovakia has steadily increased its share of deployable troops to the ISAF mission in Afghanistan, KFOR in Kosovo, ALTHEA in Bosnia and Herzegovina, UNFICYP in Cyprus, and the UNTSO observer mission at the Lebanese, Syrian and Israeli borders. Slovakia has made a concerted effort to increase troop strength in Afghanistan from 70 in June 2008 to the current level of 246. Slovakian defence funding will continue to focus this year on personnel, training readiness, and equipment and infrastructure modernization.³¹⁷

4.8 Slovenia

	2005	2006	2007	2008	2009	2010
GDP, euro bn.	28.76	31.06	34.57	37.30	35.38	35.85
GDP per capita, euro tsd.	14.37	15.47	17.12	18.42	17.31	17.63
Gross public debt, euro bn.	7.76	8.29	8.08	8.39	12.52	14.60
Gross public debt (% of GDP.)	26.98	26.69	23.37	22.49	35.38	40.72
Net lending (+) or net borrowing (-), euro bn.	-0.41	-0.40	n.a.	-0.67	-2.06	-2.08
Net lending (+) or net borrowing (-), % of GDP	-1.43	-1.30	n.a.	-1.79	-5.82	-5.81
Defense budget, euros	400,000	450,000	530,000	n.a.	n.a.	n.a.
Defense budget, % of GDP	0.00140	0.00145	0.00152	n.a.	n.a.	n.a.
Military personnel						
Armed forces	6,550	6,550	6,550	5,973	7,200	7,200
Gendarmerie	4,500	4,500	4,500	4,500	4,500	4,500

Slovenia also virtually rules out a major conventional conflict affecting its territory and focuses its threat assessments on the proliferation of WMD, international terrorism, failed states and mass migration.

The economic downturn has compelled the Slovenian Defence Ministry to make draconian reductions in defence spending. The mid-term Defence Plan for 2007-2012 initially anticipated defence expenditures reaching 2% of Slovenia's GDP by 2009; however, Slovenia will unlikely be able to achieve this mark. Instead, the defence budget is to be cut from 1.55% of GDP in 2009 to 1.25% of GDP in 2012. This means that funds for modernization will be cut in half. Due to budget cuts, the growth of the number of soldiers is slowing down and the number of officers is being cut.³¹⁸ In March 2009, Defence Minister Ljubica Jelusic announced that the defence budget would be further cut and would only grow by 5.36% from 2008. Since 2007 the defence-spending percentage of GDP has been steadily declining.

Slovenia has begun to reform its armed forces in 2006, which should be finished by 2012. Its aims are to increase deployability and interoperability as well as to increase force projection to enhance its contributions to international missions. Slovenian defence spending is heavily concentrated on efforts to transform the military from a conscript-force to a fully professional NATO-compatible service. The reduced defence budget since 2007 has been translated first and foremost in the stretching, indefinite postponement and even cancellation of procurement projects. New acquisition is only selectively planned. No major cuts have been made to personnel numbers, however. The financial squeeze has

³¹⁶ Ibid.

³¹⁷ NATO, *Commitments to operations and missions: The Slovak Republic*, 07.04.2009, see < <http://www.nato.int/issues/commitment/docs/090407-slovak-rep.pdf> >

³¹⁸ 'MoD meets goals in first two years despite budget cuts', *Slovenska Tiskovna Agencija* 01.12.2010.

bogged down ongoing reform efforts. In April 2010, a new national Security Strategy was adopted, but in light of the current financial situation, the implementation of its ambitions seems unlikely.

By 2015, Slovenia wants to be able to field up to 750-1,000 troops for one year. Besides downsizing, the main axes of reforms are to achieve an all-professional force and to modernize equipment through increased defence spending with increased investment. Capability priorities are C2, deployability, mobility, combat effectiveness, sustainability and survivability.³¹⁹ Recent ministry activity includes the purchase of new combat vehicles for €438m; stabilizing personnel costs at around €210m; and increasing funds for operations from €70m in 2005 to €180m by 2010.³²⁰

The implications of austerity measures for Slovenia's international obligations are severe: Slovenia will not be able to pay its membership fee to the UN in 2011 and will have to cut down on cooperation in international representative offices, cut funds for staff at its missions, bring down the number of people sent to international operations and missions and reduce the army at home.³²¹ Yet to date, no details on troop-withdrawal are currently known. Slovenia has integrated a small contingent of American soldiers in its first Slovenian-led OMLT in Afghanistan and heavily relies on American materiel (e.g. protected vehicles). Slovenia engages in closer defence cooperation with Serbia, Croatia, Macedonia and Austria.

³¹⁹ Bastian Giegerich, Alexander Nicoll, *European Military Capabilities*, IISS, 2008, p. 38.

³²⁰ NATO Parliamentary Assembly, *The Global Financial Crisis and its Impact on Defence Budgets*, 178 ESC 09 E rev 1, 2009 Annual Session, <<http://www.nato-pa.int/default.asp?CAT2=0&CAT1=0&CAT0=576&SHORTCUT=1928&SEARCHWORDS=financial,crisis>>

³²¹ 'Funding Cuts Affecting Slovenia's International Obligations', *Slovenska Tiskovna Agencija*, 14. October 2010.

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