

By Gerrard Cowan

One of Europe's largest ever defence projects, the A400M military transport aircraft, finally flew on December 11th, five years and billions of pounds over target. As they gathered in Seville, the leaders of the continent's defence industry would have seen the take-off as an all-too-rare bright spot in a year that saw major programmes cancelled or postponed, funding reduced and procurement ambitions curtailed.

Cutbacks to already-small budgets have many consequences: most obviously, they raise serious security concerns, particularly at a time when many European nations are committed to the war on terror and fighting hard in its Afghan hub. But for the continent's defence industrial base, it is the structural effects of underinvestment that poses the greatest threat.

Italy, France and Germany have announced budgets below their 2009 level. The UK's decision to procure 22 Boeing CH-47 Chinook heavylift helicopters for Afghanistan was funded through an extensive package of cuts to equipment programmes, including the cancellation of plans to acquire around 50 medium support helicopters, worth £3 billion; and Spain's Ministry of Defence (MoD) said it would cut training exercises following three consecutive reductions to its 2009 budget.

Beyond the traditional big spenders, things were perhaps even worse. Senior figures in the Austrian military warned that the army was "dying" due to underfunding; the Slovakian MoD was told to enact cuts of 10 %

Estonia postponed the procurement of ammunition and trucks; Poland called an end to its military presence in Lebanon Syria and Chad/Central African Republic for financial reasons; and Lithuania said it would refrain from new procurement projects.

It is obvious that lower budgets will see less money going to European companies, who will be forced to increase their focus on international expansion; this itself may be threatened in a climate when non-European countries will be aiming to support their own industries, making them less keen on European hardware. This is likely to be particularly true of the US.

Not only are European budgets falling; there are also questions over what they are being spent on. In 2008 just five NATO members met or exceeded the target of spending 2 % of GDP on defence: the UK, US, France, Greece and Bulgaria. But France spent the majority of its investment – 56.9 % on troops and just 21.7 % on equipment. Bulgaria's spend was even more slanted in favour of its personnel, at 58.9 % with 21.4 % on equipment, while Greece spent the highest proportion of all on its personnel – 74.1 % compared to 16.4 % on equipment. The US and UK, unsurprisingly given their contribution to the Afghan war, spent the least on personnel and the most on equipment. The US spent 27.3 % of its budget on equipment, and 29.8 % on personnel; for the UK it was 40.7 % on personnel and 23 % on equipment.

Referring to these stark figures, Peter Flory, NATO's assistant secretary general for defence

investment, said on 17 December that the alliance was now "dealing with its highest-ever operational tempo combined with a need to make long-term strategic decisions. Yet only five of the 28 allies meet the NATO's 2 percent [of GDP] spending guideline [for defence expenditures]. The overall average may be 1.7 percent, but many allies are far below that. Thus, the first problem is that we do not enough money, and within the budget the allies do have there is not enough spent on investment on capability and equipment."

In a broad sense, defence spending could actually serve as an economic stimulus at a time of severe recession; however, this will only work if there is a degree of cooperation across European states. In a speech in December before NATO's Parliamentary Assembly, Dr Adrian Kendry, NATO's Senior Defence Economist, said that "a big disparity" was beginning to emerge between EU nations and the US and Canada and that while the European emphasis on domestic defence investment was a natural response to the economic crisis, it was "good for the local economy but not the best use of funds...we have to think about collaborative defence expenditure". Echoing these comments, Canadian parliamentarian Leon Benoit said that if European budgets were proportionately 40% lower than the US, then due to the fragmentation of the European market, it would only be 20 % as effective as US investment.

"We cannot continue with the way things are now," he said.

Falling budgets have led to increased calls for European collaboration. In a December speech on Europe's naval defence technological industrial base (DTIB), European Defence Agency chief executive Alexander Weis said that "innovation does not come from the export but from the domestic market...the current naval DTIB is characterised by overcapacities, fragmentation and redundant structures".

To illustrate his point, Weis said that despite a far inferior defence spend, Europe has 7.2 naval systems, overall, for each US naval system; the continent has seven different types of diesel submarines and 11 different frigates; and most starkly of all, there are 25 naval prime contractors, many of which encompass more than one shipyard.

>He outlined three scenarios which can be applied to the defence industrial base as a whole. In a worst case scenario, industry would continue in its current form, with no consolidation or cooperation; operating profits and costs would come under increasing strain and yards would eventually be unable to compete with cheaper equipment from Asian yards.

A 'single European market scenario' would see consolidation of demand and the creation of EADS-type companies in the naval sector. However, none of the major European shipbuilding countries would abandon their national capacities, making such a scenario unrealistic.

A third, 'realistic scenario' would see the launch of major co-operative projects, such as a logistics ship in the mid term and even an aircraft carrier project in the long term.

"On this basis the European naval industry increases project-oriented co-operation aiming at specialisation while avoiding duplication of capacities and technological capacities," Weis said.

The coming year will certainly see European countries cut their defence budgets even further. More optimistically, however, it could present a unique opportunity. The parlous state of the global economy could lead to more co-operation, less duplication and more rationalisation: a money-saving goal long cherished by many in the industry. With budgetary pressures also weighing heavily in Washington, there is also the potential for more transatlantic industrial co-operation.

"Out of crisis comes opportunity," Professor Kendry said. "This may encourage a more comprehensive approach to addressing problems and challenges. How do we engage effectively, where are there synergies to spend more wisely and effectively? If we could only take time to review how we use this crisis, it might go some way to dealing with the challenges of investing in defence."

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