European Security
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/feus20

European Union Armaments Policy: Options for Small States?
Dr Jocelyn Mawdsley

a University of Newcastle, UK
Published online: 09 Jan 2009.

To cite this article: Dr Jocelyn Mawdsley (2008): European Union Armaments Policy: Options for Small States?, European Security, 17:2-3, 367-385
To link to this article: http://dx.doi.org/10.1080/09662830802525923

PLEASE SCROLL DOWN FOR ARTICLE

Full terms and conditions of use: http://www.tandfonline.com/page/terms-and-conditions

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden.

The publisher does not give any warranty express or implied or make any representation that the contents will be complete or accurate or up to date. The accuracy of any instructions, formulae, and drug doses should be independently verified with primary sources. The publisher shall not be liable for any loss, actions, claims, proceedings, demand, or costs or damages whatsoever or howsoever caused arising directly or indirectly in connection with or arising out of the use of this material.
European Union Armaments Policy: Options for Small States?

JOCELYN MAWDSLEY
University of Newcastle, UK

ABSTRACT This article addresses the question of small states and their future role in any EU armaments policy. It argues that their traditional tactics of demanding equality of membership in armaments organisations, using protectionist tactics to preserve the indigenous defence industry and using their home markets as a method of gaining advantages for their firms, are increasingly failing at the EU level. A combination of their own choices on defence spending, the agreement to allow permanent structured cooperation within the European Defence Agency and the Commission's efforts to liberalise the defence procurement market seem likely to force most small states into the backseat of EU armaments policy-making.

Introduction

In recent years, the European Union has gained new powers in the field of armaments policy, despite the policy area previously having been considered a fundamental cornerstone of national sovereignty. Examples such as the establishment of the European Defence Agency (EDA) in July 2004 and the European Commission's 2007 draft directive on defence procurement, clearly show that the EU has not only become the focus point for discussion of European intergovernmental armaments cooperation, but also that there is growing institutionalisation and regulation at the EU level. Nevertheless, the member states still jealously guard their national prerogatives, and the reality of any progress towards an EU armaments policy is difficult intergovernmental negotiations. It is well known that Britain and France, as the two biggest military powers in the EU, must find common ground if EU level cooperation is to develop further. However, while the contrasting views of the UK and France are clearly important, comparatively little attention has been paid to another difficult issue hindering development at the EU level, namely the significant gap between small and large states on questions of armaments

Correspondence Address: Dr Jocelyn Mawdsley, Lecturer in European Politics, Politics, 40-42 Great North Road, University of Newcastle, Newcastle upon Tyne, NE1 7RU, UK. Email: Jocelyn.Mawdsley@ncl.ac.uk

ISSN 0966-2839 Print/1746-1545 Online/08/02-3367-19 © 2008 Taylor & Francis
DOI: 10.1080/09662830802525923
policy, and the even more thorny question of whether small states should continue to have a voice on EU armaments policy, if they cannot or will not make a meaningful contribution. This article investigates the tactics that smaller member states have traditionally used to secure a say in European armaments cooperation and asks whether such tactics are still viable in the new EU-level policy-making environment.

Armaments policy is about the management of defence markets and industries in order to provide the weapons deemed necessary for a national defence policy. It touches the heart of the Westphalian concept of sovereignty of the nation state, its territorial defence. Without the weapons to defend its territorial sovereignty, it is argued, a state cannot be truly sovereign; after all, even neutral states have armed forces and have often maintained an indigenous defence industry to avoid reliance on other states for armaments supplies. Preserving national autonomy or at least control in the armaments sector has therefore traditionally been very important for states. Krause suggests that there are three reasons for states to maintain a military industry; the pursuit of victory or survival in war, the pursuit of power and identity and the pursuit of wealth.

But is this relevant to small states? The scholarly investigation of small states and their ability to survive and thrive in the international system has frequently rested on the assumption that they are unable to provide independently for their security. Thorhallson’s review of the small states literature concludes indeed that this has been the dominant approach, and that there is a general consensus that small states’ security is decided upon by power politics and other factors beyond their control. Authors have often suggested that small states should seek the shelter of alliances with powerful states able to offer a security guarantee. If this is the case, why might small states care about armaments policy if they are already dependent on larger powers to provide their security?

Armaments policy is about more than security policy. As a policy sector it acts as an interface between industrial, technological and defence policies. The way that weapons production has been managed in Europe in the twentieth century has produced symbiotic relationships between national and sometimes state-owned defence firms and their nation state. The nation state needs the firms to produce their weapons, while for the firms their government is the primary customer. This produces a decidedly imperfect market. It is true that small EU states tend to purchase large weapons systems from larger weapons-producing states, because their indigenous defence industry lacks very advanced capabilities but tends to have a sub-contractor role as a part of any production deal. Many small European states have proved remarkably attached to their defence industrial capabilities and their independence in procurement decisions. This is particularly the case where defence firms are significant employers of skilled workers in otherwise depressed areas.

What therefore is the real difference between large and small states on armaments policy? Firstly, it is important to say that there is no generally
agreed definition of a small state. However, in terms of EU politics, it is usually agreed that the term refers to member states other than Britain, France, Germany, Italy, Poland and Spain.\(^5\) In this particular case, however it is not so simple. In general when we think of key states and EU armaments policy, Poland is frequently relegated to the second tier and Sweden, usually described as a small state, takes its place. Sweden is generally viewed to be punching above its weight in European Security and Defence Policy (ESDP). This is unsurprising: Sweden’s stance on neutrality meant that it maintained a highly developed defence industry and as such has been included in for example the Framework Agreement on defence industrial restructuring. According to van Camp, as late as 1997 more than 50 per cent of Swedish defence equipment was produced in Sweden.\(^6\) Therefore, for the purposes of this article it is perhaps wise to turn to Deloge, who suggests that the difference between large and small states in analytical terms rests on the state’s ability to exercise a degree of independence and the capacity to take initiative.\(^7\) In other words, when related to armaments policy, the gap between the large and small states divides those states with a degree of independent capacity in major weapons systems production, meaningful defence research capabilities and the resulting power to have a major impact on any decisions on armaments cooperation in the EU from those that lack these abilities.

Sharing this lack of independence means that the small states tended to follow similar patterns of behaviour when they have been faced with moves towards greater European armaments cooperation. Writing in 1995 about defence markets and cooperation in Europe, de Vestel concluded:

> There are many differences between the small European countries but they have in common two main claims and one trump card. The two points in common are:
>  - the determination not to be kept outside any defence markets integration process, for both political and economic reasons
>  - emphasis on *juste retour*\(^8\) or industrial and technological compensation . . .

The small and medium-sized European defence companies are of no industrial or technological interest to the French, British, German or Italian industries. On the contrary, they usually seem redundant. The small companies have only one trump card, their internal markets, although small, do attract the attentions of the bigger companies.\(^9\)

The research question underpinning this article is whether these tactics still work for small states as European armaments cooperation moves to the EU level. This article intends to begin by offering a historical overview of how small states have reacted to the rapid changes in first the intergovernmental and the EU-level methods of organising armaments cooperation since the mid-1990s. It will then analyse the tactics that small states have utilised to exert influence on European
Intergovernmental European Armaments Cooperation

During the Cold War small states had relatively straightforward choices to make on armaments. The political realities, coupled with the high cost of advanced weapons systems, meant that they needed to belong to either the North Atlantic Treaty Organization (NATO) or the Warsaw Pact or (if geographically or politically possible) make the choice of neutrality. As Deloge points out, membership of alliances allowed small states the advantage of access to advanced weaponry without having to invest heavily in military research and production. In reality, while most alliance members retained an indigenous military industry, they became heavily reliant on those members who were high investors in military technology or for historical reasons had advanced capacities for the more sophisticated equipment. For European NATO members the issue of costs, coupled with a degree of worry about becoming reliant on the USA, did lead to regular efforts at multinational collaboration on procurement projects, but this did not always lead to the rationalisation and maximisation of European efforts that was intended. As Hayward points out:

Although collaboration helped to bring replacement schedules into line, it did not necessarily lead to convergence. Equally, the relative success of collaboration tended to strengthen national industries and intensify the industrial and technological interests that governments would seek to promote and defend in subsequent programmes.

Indeed, in some ways these early efforts at intergovernmental cooperation enabled small states to strengthen their defence industrial sector because they were guaranteed work in return for financial participation. During the Cold War, where high levels of defence spending were the norm, this was not necessarily a problem. However, the end of the Cold War changed this rapidly.

Following the end of the Cold War, the American government and defence industry were comparatively quick to move to restructure their defence industrial landscape to suit the post-Cold War era with what was at least initial marked success. European governments in contrast were slow to come to terms with the combination of a changing global market, a loss in market share to the reformed and reinvigorated new American mega-firms, spiralling costs in

armaments cooperation, namely insistence on equality of membership in armaments cooperation structures, the demand for juste retour or compensation (generally in the form of countertrade or offset) and the way in which they have used their markets to play off arms-supplying countries against each other. The final section will examine the new EDA and the Commission’s attempts to introduce market rigour to the defence sector and consider how viable the small states’ tactics can be in this new environment.
weapon systems exacerbated by falling defence budgets and the slow pace of change from territorial defence towards peacekeeping and peace enforcement-oriented forces, and defence firms that with few exceptions were dependent on the directorial role of the state.

Initial European attempts at reform and increased cooperation took place within the Western European Union (WEU). From 1992 the WEU fostered armaments cooperation within its sub-bodies: the Western European Armaments Group (WEAG) and the Western European Armaments Organisation (WEAO), which was initially intended to evolve into a European Armaments Organisation. Progress in WEAG's three panel format (I. promoting cooperative equipment programmes; II. promoting cooperation in defence research and technology (R&T) including the European Cooperation for the Long Term in Defence (EUCLID) programme; III. common defence economic policy and armaments cooperation procedures) was slow. The commitment in the 1990 (updated in 1999) Coherent Policy Document to support\textsuperscript{*} for a transitional period—countries with developing defence industries, and to apply \textit{juste retour} (prescriptive national work-share entitlements in collaborative projects according to financial input) meant that WEAG was never able to find consensus between the bigger producing states’ need for reform and the smaller producing countries’ need to protect.

For the large weapons-producing states, it was vital that industrial mergers (both national and transnational) were facilitated if their firms were to survive in the new competitive global arms market. Similarly, they were keen not to fall too far behind the United States in terms of weapons systems development, so that their status as military powers was not undermined. This meant collaborative defence procurement but also the need for such projects to be managed efficiently and economically so that defence budgets could be stretched as far as possible. Smaller states saw these mergers of large firms and demands for efficiency in collaborative projects as a threat to their small, and often not very competitive, defence firms and so sought to protect them and by extension their own status as equal members of the WEAO. Given this divide, it is perhaps unsurprising that the WEAO never advanced further than acting as a research cell, and even then the value of the contracts it let only amounted to 2.5 per cent of European defence research and technology spending.\textsuperscript{14} A 1997 Masterplan was developed, which was intended to lead the WEAO into becoming a European Armaments Agency by establishing organisational formats, procedures and plans, but in 2002 a meeting of Ministers, while formally endorsing the evolutionary plans, disbanded the Masterplan Group of National Experts, thus tacitly agreeing to abandon the project in favour of progress within the EU.\textsuperscript{15}

Frustration with the slow progress within the WEU led the larger arms-producing countries to move ahead outside of the institutional framework. In 1998 France, Germany, Italy and the UK signed a convention establishing the Organisation Conjointe de Coopération en matière d’Armement (OCCAR), with
the aim of employing best practice in multinational defence procurement and using competition as an integral part of achieving the delivery of cost-effective defence equipment. OCCAR intended to achieve savings by abandoning prescriptive national work-share entitlements in favour of a system of global balance across a number of projects as well as stopping the duplication of project staff and resources across participating countries. OCCAR manages a number of collaborative programmes, including the Counter Battery Radar (COBRA— involving UK, France, Germany and Turkey), the A400M military transport aircraft (UK, France, Germany, Spain, Turkey, Belgium and Luxembourg), the Franco-Italian Future Surface to Air Missiles Family (FSAF) and Principal Anti Air Missile Systems which also involve the UK, the Franco-German Multi-Role Armoured Vehicle (BOXER), a Franco-Italian multi-role frigate programme (FREMM) and the Franco-German-Spanish Tiger Helicopter programmes. Membership of OCCAR is open to other European nations subject to their commitment to a major project involving at least one of the OCCAR partner nations, acceptance of OCCAR’s principles and policies, and accession to the OCCAR Convention. Belgium acceded to the Convention with the signature of the A400M project in 2003 and Spain joined in 2005.16

There was also progress in defence industrial policy coordination outside of the EU institutions. The Framework Agreement came to fruition through what was known as the Letter of Intent (LoI) process, to which the Defence Ministers of France, Germany, Spain, Italy, Sweden and the UK signed up in July 1998. This process aimed to start discussion on defining a framework of cooperation to facilitate the restructuring and operation of the West European defence industry as well as acting as a kick-start for what then proved to be an industry-led restructuring of the aerospace and defence electronics sector. Two years later in 2000, these Ministers signed the Framework Agreement which established measures for improving cooperation on harmonisation of military requirements, security of supply, export procedures, research and technology, handling of classified information and the treatment of technical information. Further negotiations followed to establish the details of how this was to be managed and extended, but are generally considered to have been less successful.17

Just as the large arms-producing states have developed new modes of cooperation to meet the changing environment so have their industries. After an initially slow reaction to US consolidation of defence firms in the early 1990s, a similar merger strategy was pursued in Europe, at least in the aerospace and defence electronics sectors. This process was predominantly industry-led. The purchase of GEC Marconi’s military wing by British Aerospace, the merger of DASA, Aérospatiale and CASA, and the vigorous acquisition strategy pursued by Thomson produced three giants in the shape of BAE Systems, EADS and Thales. The development and shape of these companies though varies. Vlachos-Dengler points out that BAE Systems can be regarded as a massive ‘national champion’, resulting from the merger of
British Aerospace and GEC Marconi (although many others might view it as a transatlantic firm following an aggressive expansion programme in the US), while EADS was consolidation at the European level as it resulted from the merger of Germany’s DASA, the French Aérospatiale Matra and Spain’s CASA following major government pressure for this merger. Finally, Thales emerged from a more normal growth period as it acquired smaller businesses and integrated them into its core functions. Consolidation has proceeded considerably more quickly in the aerospace and defence electronics sectors than it has in other sectors like land industry or ship-building.

Small States and Intergovernmental Armaments Cooperation

Earlier this article argued that there are certain common tactics that small states utilised to exert influence on European armaments cooperation during the Cold War, namely insistence on equality of membership in armaments cooperation structures, the demand for *juste retour* or compensation (generally in the form of countertrade or offset) and the way in which they have used their home markets to play arms-supplying countries off against each other. How have these tactics worked in the 1990s/early 2000s era of intergovernmental cooperation? The first tactic seems to have failed as the small states were powerless to influence or check the progress made by the large arms-producing states, which have essentially set up a regime that is favourable to their interests but not really those of the smaller states. Moreover, as we shall see, these developments have had an impact on the way in which the growing armaments policy cooperation in the EU has been framed. While Wiberg makes the point that even if the rules are not in their favour small states tend to have interests in the creation and strengthening of regimes because they fear that the absence of rules strengthens the power of stronger states still further, it is hard to portray the offer of membership of OCCAR and the Framework Agreement to non-members as equality. Joining the club means playing by the larger states’ rules. OCCAR and the Framework Agreement, together with the industrial structuring that has taken place, has weakened the position of small states and both developments suggest that small states’ insistence in the WEAO on maintaining protectionist practices to safeguard their national industries was perhaps a mistaken tactic, as it offered an excuse for the large states to leave them out of their negotiations.

Have the small states been able to use economic compensation or other protectionist measures to safeguard their defence firms during this period? Obviously, participation in the big European project in this period, the A400M transport aircraft, required states to agree to OCCAR’s global balance system, which divides work over a series of projects. This works well for countries likely to participate in most programmes and with competitive defence firms, but for small countries, who do not meet these criteria, it is likely to be harder to guarantee work. While Belgium and Luxembourg, purchasing seven and one of
the 180 aircraft respectively, are participating in the A400M project, their
capacity to leverage decisions in their interests is minimal.

Nevertheless, despite the large states changing the rules on collaborative
projects, and a recognition that offset tends in the long run to increase weapons
purchase costs, its appeal to small arms producers as a way of protecting
indigenous defence industry through its domestic defence procurement remains
intense.\textsuperscript{20} The case of Belgium is perhaps a salutary tale. As one of the states
with the smallest percentages of GDP spent on defence in Europe, Belgium has
long looked to find ways to be able to cut spending in some parts of its defence
budget to enable it to participate fully in ESDP, and so decided in 2001 to
abandon the use of offset.\textsuperscript{21} However, it reintroduced it in 2004 due to pressure
from across the political and industrial arena. It is estimated that 4,500 defence
jobs were lost in the period when offset was banned. Since it was reintroduced
Van Kamp and Berth have commented acerbically that ‘some recent acquisi-
tions seem indeed to be a way of supporting the Belgian defence industry rather
than of offering added value to the Belgian armed forces’.\textsuperscript{22} A good example of
this, they suggest, is the decision to pay Belgian firm EMI €5.56 million to
modernise 64 howitzers, despite the facts that, a) they will be removed from the
Belgian army by the end of 2007, and b) the Belgian financial inspection office
has ruled that resale of the weapons is improbable given the lack of a market.
This is not a one-off incident. Another controversy in 2008 involved the
decision to arm some of Belgium’s new Piranha tanks with a 90mm cannon,
produced only by a Belgian firm, despite evidence that it is too light for the
purposes needed.\textsuperscript{23} This case is perhaps emblematic of the heavy, and in
military terms counterproductive, reliance that small states place on such
protectionist measures. Belgium is far from the only state acting in this way,
Chung Choong Lan also points out that only F-16 offsets are keeping the
Polish defence industry from serious trouble.\textsuperscript{24} However, such extensive use is
really only a sign of weakness and it is questionable how long any pretence of
an economic rationale for the practice can continue to be made.

Similarly, it is useful to ask to what extent the small states’ domestic defence
markets allow them to keep a degree of independence. Struys argues that small
and medium EU states have not only faced the problems that large states have
in declining defence budgets and enforced consolidation of the defence
industrial sector\textsuperscript{25} but are also stymied by the fact that their national markets
and defence budgets are so limited as to make R&T and production costs
prohibitive unless the export market can be exploited.\textsuperscript{26} Moreover, small states
have tended to cut the defence investment part of their defence budgets
(procurement and research) when they needed to save money, because
personnel costs are relatively inelastic and cutting the size of the armed forces
is politically difficult, thus shrinking their crucial home market still further.
Amongst the EU-15 states he also emphasises that small states’ defence firms
tend to either produce relatively low-tech military equipment, such as small
arms and munitions, or to be active as sub-contractors providing components
for prime contractors from large states. This latter activity makes them very vulnerable to market changes elsewhere and they can also only keep their place in the supply chain if they maintain excellent research and production capabilities that cannot be replicated elsewhere more cheaply. It also means that retaining intellectual property and licence rights over the components or sub-systems they produce becomes a critical issue.\textsuperscript{27} While some states have made plans to re-orientate their defence spending towards defence investment, such budgetary shifts take years to implement.

It is no easier for the newer member states in Central and Eastern Europe, even if they were significant arms producers during the Cold War. Although preparing for NATO membership involved a commitment to extensive modernisation and upgrades of their armed forces, they have also phased out much of their defence industry and cut defence spending. How have they done this? Gloaguen points out that Hungary, the Czech Republic and Slovakia received sizable quantities of military goods from Russia after the end of the Cold War, but that this equipment has been offset against the debt Russia owes to the countries originating from the now defunct Council for Mutual Economic Assistance. For example, in 2002–3 the Czech Republic and Slovakia both received MiG-171 helicopters, while in 2001–2 Hungary and Slovakia agreed that Russia should modernise their MiG-29 fighter aircraft.\textsuperscript{28} Russian sales therefore have been a useful way for the three countries to meet their NATO armed forces equipment commitments without spending directly or producing the aircraft themselves. If anything, the peace dividend, coupled with the shift to a market economy, caused deeper defence economy cuts in the East than in the West. Struys points out that the problem for the new member states is intensified by the fact that much of their defence industry was concentrated in fields such as tanks and other land armaments: a field that has reached maturity in terms of development (i.e. not a high technology field) and is therefore in decline across Europe.\textsuperscript{29} While Poland, for example, retains ambitions in the field of armaments, the Czech Republic produces some sophisticated equipment and Slovakia has maintained a significant research capacity and related industry, all three states have considerably reduced their production, research and development capacities since the end of the Warsaw Pact.\textsuperscript{30} The situation is even more pronounced in Romania, which had striven for quasi-armaments autarky during the Cold War, but now employs only 18,000 people working on international cooperation projects, and Bulgaria whose defence industrial base is now reduced to 25,000 employees producing mainly low-tech small arms and munitions.

Perhaps small states’ most positive recent experiences have been working in cooperation with other small states with similar problems. Cooperation between the Benelux countries remains strong: for example Belgium has recently bought two frigates from the Netherlands.\textsuperscript{31} Similarly a 2001 agreement between Norway, Sweden, Finland and later Denmark to strengthen defence industrial cooperation has resulted in the Nordic Standard Helicopter
and the production of new generation mortars (AMOS). Other small states have played the defence market to gain some advantage from their main arms supplier. For example, while Greece is realistically dependent on the USA for arms exports, a steady stream of procurement deals with Russia has ensured that the USA does not take Greek purchases entirely for granted. On the whole, though, the picture of both markets and industry in small states is not positive. Struys argues that large EU states cannot expect small states to abandon defence production altogether, and must include their firms as subcontractors in defence procurement projects for ESDP, but this may be over-optimistic. With respect to Belgium, Berth and van Camp argue that unless they are able to overcome their budgetary problems and invest more heavily in research and technology even a place in the supply chain may not be viable for firms in small states. This would seem applicable to almost all of the small states in the EU. If therefore the small states seemed unable to maintain their place in the era of European intergovernmental cooperation led by the big states, might they benefit from the recent moves to embed armaments policy in the EU institutions?

Small States and the European Defence Agency

The European Defence Agency was originally agreed within the Convention on the Future of Europe. Had the Constitutional Treaty been ratified according to the original timetable, this agency was expected to come into being after the treaty had come into force in 2007–8. The 2003 Italian Presidency decided though to begin a parallel process leading to a Joint Action, on the grounds that there had been no detailed ministerial discussion on the agency during the Convention. The June 2003 European Council meeting at Thessaloniki speeded up this timetable still further. In the Presidency Conclusions the European leaders announced that the agency would be established with four areas of work:

1. Defence capabilities improvement;
2. Armaments cooperation;
3. European defence technological and industrial base and the defence equipment market;
4. Research and technology.

Following a period of preparation, during which the remit was drawn up and the shape of the agency agreed, the European Defence Agency was formally established on 12 July 2004 by Council Joint Action 2004/551/CFSP. Membership of the Agency is voluntary and Denmark decided not to join. Membership has also been a difficult topic for some neutral countries. The Maltese government in particular faced considerable domestic criticism by becoming a member and the opposition said that it would withdraw Malta from the agency if elected.
It is well known that there have been major tensions between the UK and France over whether the EDA should be a traditional armaments agency with a strong industrial policy role or whether it should concentrate on assisting in generating military capabilities. The reservations of the smaller member states, which have been less well publicised, have focused on their fear of ‘second class membership’. While the formulation in the Constitutional Treaty was very vague and reminiscent of the many other declarations in different fora, such as the WEAO, OCCAR or the Framework Agreement on the need for better armaments cooperation, it did include a clause that ‘specific groups shall be set up within the Agency bringing together Member States engaged in joint projects’. During the negotiations to establish the EDA Portugal objected strongly to a clause (Article 21) that would allow some members to set up arms projects that would only be open to others by invitation. There was clearly some worry among smaller arms producers that the Agency would only serve the interests of the larger arms producers: the members of OCCAR and the Framework Agreement group. The Joint Action made it clear that OCCAR’s programme management service can and will be used by the Agency, while Article 25 says:

The Agency shall develop close working relations with the relevant elements of OCCAR, the LoI Framework Agreement, and WEAG/WEAO with a view to incorporate those elements or assimilate their principles and practices in due course, as appropriate and by mutual agreement.

A WEU Parliamentary Assembly Report also complained that the EDA seems to be subservient to the interests of the OCCAR states. The basis for the difficulty between large and small producing countries centres on work-share. OCCAR abandoned the notoriously inefficient juste retour system (where the national work-share is exactly proportional to project investment) in favour of a global balance system, which divides work over a series of projects. This works well for countries likely to participate in most programmes and with competitive defence firms, but for small countries, who do not meet these criteria, it is likely to be harder to guarantee work. Therefore there was never any agreement among WEAG members on the scrapping of juste retour, and so the EDA’s apparent acceptance of OCCAR’s principles and potentially elements of the Framework Agreement was viewed as discriminatory by the rapporteur for the WEU Parliamentary Assembly.

The Treaty of Lisbon also contains a protocol on permanent structured cooperation that strongly suggested that groups of states wishing to push the activity of the Agency forward could do so. It is clear that criteria could be set for participation in such groups and it is this suggestion that the larger states could utilise this to ensure that the Agency meets their priorities despite the openness of membership, that worries small states. Nick Witney, the
former Chief Executive of the EDA, has confirmed these fears are real, arguing that while any ‘pioneer groups’ should be based on transparent and binding criteria and commitments and include as many states as possible, where they have something worthwhile to offer, ‘inclusivity should nonetheless have its limits: non-contributing passengers should not be allowed to slow the enterprise down, and influence should be proportional to the stake each Member State holds in it.’

Witney points out tellingly that minimal requirements, such as spending 1 per cent of GDP on defence, would currently exclude Austria, Ireland, Luxembourg and Malta (Belgium, Spain, and Hungary all spend less that 1.2 per cent). States such as Greece, Bulgaria, Malta and Cyprus show a marked disinclination to deploy troops outside of Europe, contributing less than 1 per cent of their armed forces to missions in 2006. Moreover, even when small states spend on defence mostly they do not spend on equipment or research, they spend on personnel costs (for nine member states—all small ones except Italy—over 70 per cent of defence budgets go on personnel costs). Witney rightly questions whether those states which only make a slight or negligible contribution to ESDP should continue to have equal influence to those who make major contributions, pointing out that it is often those in the non-contributory camp that also are the ‘most ready to hijack meetings in pursuit of some narrow national concern’. While any hint of excluding founder members of the EU, such as Belgium or Luxembourg, will be very controversial, that he proposes it shows a measure of the frustration Witney clearly felt as EDA Chief Executive.

It is, however, also clear that the EDA has inherited some of the difficulties that plagued the WEAO in agreeing coherent strategies on future armaments policy in Europe. As the EDA is intended to give strategic direction to the EU’s armaments efforts, it seems worth analysing its 2006 Long-Term Vision Report and statement on the shape of the European defence industrial base of the future to see what its vision for small states seems likely to be. Firstly, let us turn to the statement on a future European defence industrial base. The EDA argues that there is a need for a defence industrial and technological base (EDTIB), which ‘dependably supplies European Armed Forces’ needs even in times of conflict, and which provides for appropriate national sovereignty and EU autonomy’. Accepting that harmonisation of the demand side is needed to facilitate consolidation of the supply side, the EDA states that the supply side should be capability driven, competent and competitive. The EDA suggests that to achieve this, there needs to be more consolidation, work-sharing and interdependence on a EU basis, centres of excellence (with regional distribution), greater integration into the civilian industrial base and a reduction in reliance on non-European sources (i.e. USA). Small states, this seems to suggest that only those states with competitive defence firms (or technologically advanced civil industry in necessary fields) will be a part of this future. Firms will need to be regarded as attractive by their larger competitors to be included in any consolidation process—i.e. possess
innovation capital like successful research programmes or niche manufacturing expertise. Unfortunately, as Witney points out, only Britain and France (with Germany a distant third) really carry out defence research—ten member states (all small) spend less than €1 million each on defence research annually.\textsuperscript{50} There is perhaps some measure of hope for the small states—the EDA says that there must be an acceptable regional distribution of Centres of Excellence, which may enable some to be paired with larger states. However, there is little specific detail on what such centres might look like.\textsuperscript{51}

Let us see if the long-term vision offers more enlightenment. The section of the report dedicated to defence industrial policy is relatively short (paragraphs 67–72) but it makes some interesting points. In paragraphs 70–71 the EDA argues that, while there is no future for an EDTIB that ‘does not supply what our armed forces actually require and what export customers may be interested to buy’,\textsuperscript{52} further mergers were needed and member states would have to accept that the EDTIB could only survive as a European whole and not as the sum of national capacities. For states, which believe that maintaining national capacities to ensure national security is essential, this will be hard to take. It would also seem unfavourable to the small states whose firms are often viewed as uninteresting to those planning mergers. Interestingly, it goes on to suggest that EDTIB survival ‘also means emulating the speed with which several industries (automotive, IT) have realised the benefits of cheaper production in Eastern Europe’.\textsuperscript{53} It is difficult to see, however, why the big spenders on defence procurement (UK, France, Germany and Italy) would be prepared to invest so heavily if production is to be moved to Eastern Europe given that the EU is far from being a unitary state, or indeed whether such a proposal even makes economic sense. Unlike cars, defence production cannot be moved on continuously to ever cheaper production sites. It is also questionable whether defence production is a good vehicle for structural or regional development. In other words, there seems to be a degree of disagreement even within the EDA, but on balance the Agency seems unlikely to be particularly supportive of small states wishing to maintain uncompetitive industry. Moreover, the possibilities of permanent structured cooperation mean that ultimately small states cannot prevent large states organising \textit{l’Europe d’armement} to suit their own interests.

In short, the EDA has inherited the same problems the WEAO had, but there is one crucial difference. The possibilities of permanent structured cooperation in the shape of ‘pioneer groups’ mean that there is no guarantee that small states will be treated as equal members, unless they are real contributors to the group. Political or rhetorical commitment will not be a substitute for actual defence investment and contributions to ESDP missions. The choices that many small states have made in the past on defence mean that meeting any entry criteria could be extremely challenging.
Small States, the European Commission and Armaments Policy

The EDA (an intergovernmental agency) has competition within the EU institutions for the control of the armaments sector. The Commission has long harboured ambitions to manage the defence market as well as the civilian market. Traditionally, small states have viewed the Commission as their ally in inter-institutional policy-making whereas the larger states have tended to favour the Council. It might therefore be expected that small states would view the Commission’s efforts to involve itself in armaments policy through the policy frames of internal market and industrial policy more favourably than the EDA’s activities. However, in reality this seems unlikely to be the case. There are two main reasons for this: firstly, the way the Commission can get a foot in the door is by calling for the liberalisation of the European defence market and to improve efficiency by ending national protectionism. Secondly, the Commission has needed to cultivate allies in the defence industry to garner support for its involvement—it therefore has extensive links with what it regards as the key strategic firms.\textsuperscript{54} Their interests, not those of failing defence firms in small states, influence its policy-making. This is perhaps unsurprising. Bunse et al.\textsuperscript{55} point out that while the Commission may ally itself with small states on institutional questions, it does not historically favour small states when it comes to drafting specific legislative proposals, unless they have intervened early, formed coalitions with one or more large state, have networked extensively in the Commission or possess special technical expertise. Such factors do not seem to apply in this case.

The Commission is concentrating its efforts on limiting protectionism and encouraging rationalisation through limiting the use of Article 296 by member states. Article 296 (1) (b) of the Treaty of Amsterdam allows a member state ‘to take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production or trade in arms, munitions or war material’. This has traditionally been understood liberally as a ‘general and automatic exemption of hard defence material from the application of the treaty’.\textsuperscript{56} This liberal interpretation was in part enabled by the secrecy surrounding a list of the products this exemption was meant to cover, which was compiled in 1958 and updated in 1978. Although little specific evidence has been produced to back the Commission’s claim, it seems likely that the member states have made over-heavy use of Article 296 (1) (b) and it has permitted the maintenance of extremely protectionist procurement regimes in many countries. Even where Article 296 (1) (b) did not apply, the catch-all of Article 296 (1) (a), ‘No Member State shall be obliged to supply information the disclosure of which it considers contrary to the essential interest of its security’, has been used.\textsuperscript{57}

Emboldened by recent European Court of Justice (ECJ) judgments against Spain over abuse of this article, and legal advice which suggested that the Commission could legitimately enforce Single Market legislation on defence
procurement, the Commission has been looking at current interpretations of Article 296. Issued in September 2004, the European Commission’s Green Paper on defence procurement opened wide-ranging consultations with national governments, industry and security policy institutes to frame the best approach to injecting competition into Europe’s long-protected national defence markets.\textsuperscript{58} Although in June 2006 the EDA issued a non-binding Code of Conduct intended to address the worst abuse, stating that governments should publicise procurement opportunities and make decisions primarily on economic grounds, in December 2006 the Commission issued a document exploiting existing ECJ case law to limit the use of Article 296. It is expected to take states to court in the coming years to expand this case law basis.

However, it is the recent draft defence procurement directive issued by the Commission at the end of 2007 that is likely to be most problematic for smaller states in the future.\textsuperscript{59} While offset is not mentioned in the directive, the accompanying Communication refers specifically to the market distortion caused by offset requirements. The Communication remarks that, although these are said to help sustain defence spending, ‘there is a danger that buying states are less concerned about the competitiveness of the product than the attractiveness of the proposed offsets’ and suggests moving towards phasing them out.\textsuperscript{60} Although defence goods and services are, like all public procurement, already covered by the 2004 Public Procurement Directive unless exempted via Article 296, the specific regime proposed in the directive which makes allowances for security concerns will make it harder for any state to justify the use of Article 296 to shield its procurement decisions from scrutiny. There are major question marks over whether the directive could achieve its goals of making substantial savings in European procurement budgets, particularly since it lacks remedies to offer an incentive for firms to contest perceived unfair procurement decisions. In fact even those who would support the Commission’s aims have grave doubts that the directive would be helpful.\textsuperscript{61} Nevertheless, it appears to have sufficient support to become legislation. So it seems that the protectionist measures utilised by small states to stay in the armaments game are being eroded by the Commission’s moves.

**Conclusions**

De Vestel argued that there are certain tactics that small states utilised to exert influence on European armaments cooperation during the Cold War, namely insistence on equality of membership in armaments cooperation structures, the demand for *juste retour* or compensation (generally in the form of countertrade or offset) and the way in which they have used their markets to play off arms-supplying countries against each other.\textsuperscript{52} While their fortunes have been mixed during the decade of intergovernmental cooperation on armaments between the large states, it seems very unlikely that these tactics will succeed within the EU. Whether the Commission or the EDA approach prevails, it seems clear that
protectionism will gradually be phased out and that economic competitiveness and technological prowess will count for all when it comes to the survival of defence firms. Small states, like Finland, that invest in research and development and in procurement will probably be best placed to maintain some degree of defence industry, but it seems unlikely that all member states with defence industrial capacities at sub-contractor level will now be able to maintain them.

Developments within the EDA strongly suggest that while membership in pioneer groups will be open to all, there will be entry criteria. Figures on current overall spending, troop deployment and defence investment suggest that many small states will struggle to keep up. This will be a blow to states like Belgium and Greece which have both tried to argue for equality with the large powers, but which in reality are contributing comparatively little to the ESDP effort. Defence industrial consolidation has also meant that it has become harder to play one supplier against another to gain concessions in terms of industrial participation for indigenous firms. If defence consolidation produces European champions, considerable political pressure will be put on EU member states to procure weapons from such firms rather than their non-European competitors. This will further reduce the room for manoeuvre that small states have to protect their own industry. In short, it seems that only those small states, who have invested in defence, modernised their forces and maintained technological competitiveness in industry, will have much say in the shaping of any future EU armaments policy.

Notes
The author would like to thank Professor Wally Struys and the participants in a workshop on Small States and ESDP at Manchester Metropolitan University in April 2008 for their helpful comments on an earlier draft.


8 *Juste retour* principles refer to the practice of allocating work share in proportion to investment share in a multinational collaborative weapons project.


10 Offset is commonly demanded by states buying weapons from other states. It is a practice of demanding compensation as a condition for the sale to go ahead. There are two types, direct and
indirect. If direct offset is demanded, then the supplier finds a way of integrating material or components procured from the purchasing country into the weapons or to carry out some or all of the weapons production in that state, to the value demanded by the purchaser. Indirect offset is not related to the contract itself but requires the supplier to enter into non-related defence or civil industrial cooperation or investment in the purchasing state. Offset is usually expressed in terms of percentage value of the purchase price—many states demand 100 per cent but some expect more. Offset is used to minimise balance of payments deficits from military purchases or to grow indigenous defence industry. It is, though, considered to be uneconomical in the long term.

Neutral states also often imported weapons from the military powers but their neutrality often implied that a degree of armaments autarky was necessary.

Deloge, 'La Belgique', p. 96.


Schmitt, The European Union and Armaments, p. 22.

The Netherlands, Luxembourg and Turkey are participating in programmes but are not members.


Katja Vlachos-Dengler, From National Champions to European Heavyweights: The Development of European Defence Industrial Capabilities Across Market Segments (Santa Monica, CA: RAND 2002).


It should be noted that this is not limited to small states. Most EU states use incoming offset (or industrial participation as it is known in the UK) in deals with the United States, because the transatlantic market is far from free or fair to European firms.

This was also politically motivated. It was generally felt that the three-year suspended jail sentence given to former NATO Secretary-General Willy Claes in 1998 for accepting more than £2,000,000 in bribes from the Italian firm Agusta and French firm Dassault to ensure contracts from the Belgium armed forces had been seen as rather embarrassing.


For non-unitary states where industrial policy is governed at a regional level, regional rivalries can also hinder rationalisation.


Struys, ‘Y’a-t-il encore un rôle’, p. 27.


Poland employs around 60,000 in the sector, producing predominantly armoured and unmarked wheeled vehicles, electronic equipment, optoelectronics and telecommunications. The Czech Republic is active in aeronautics and small arms production and produces sophisticated equipment in the fields of electronics, optical instruments and communications. Slovakia


34 Struys, ‘Y’a-t-il encore un rôle’, p. 31.


40 Article III-212 of the Constitutional Treaty now Article 28d of the Treaty of Lisbon.


44 Witney, Re-energising Europe’s Security and Defence Policy, p. 3.

45 Witney, Re-energising Europe’s Security and Defence Policy, pp. 16–21.

46 Witney, Re-energising Europe’s Security and Defence Policy, p. 25.


50 Witney, Re-energising Europe’s Security and Defence Policy, p. 61.


55 Bunse et al., ‘Is the Commission the Small Member States’ Best Friend?’, p. 10.


57 Trybus, ‘On the Application of the EC Treaty to Armaments’.


60 Offset is viewed by the Commission to be in contravention of the Treaty of Rome but thus far Article 296 has prevented them from attacking its widespread use in defence procurement. This seems likely to change.