

# PROSPECTS FOR THE EUROPEAN DEFENCE INDUSTRIAL BASE

Christina Balis and Henrik Heidenkamp



Royal United Services Institute

OCCASIONAL PAPER

### **About the RUSI Defence, Industries and Society Programme**

The DIS Programme aims to facilitate an evidence-based understanding of the place of industries in Western defence and wider society. Its task is to systematically, independently and rigorously access the 'defence industrial ecosystem' and analyse the forces in operation in order to obtain a deep understanding of what frames and informs the national, regional and international policy debates. Through a mixture of workshops, round tables, conferences and regular publications, the programme aims to build up a 'defence, industries and society narrative' that will help policy-makers, industrialists and other stakeholders within wider society to make sense of their professional world. It informs mainstream academic, industrial and political debates relating to future military capabilities, foreign policy ambitions, investment choices, and policies impacting on businesses supporting defence.

### **About Avascent**

Avascent is the leading independent strategy and management consulting firm serving clients in government-driven industries. With a team of 100 full-time professionals and a worldwide network of regional and subject matter experts, Avascent has nearly thirty years of experience of helping companies chart paths to business growth in the defence, security and civilian sectors. With offices in Paris and Washington, DC, Avascent assists clients in the areas of strategic growth, value capture, and mergers and acquisitions. Informed by fact-based analysis and informed strategic insight, Avascent seeks to shape and contribute to key debates affecting the global defence industry from offsets to technological innovation to broader questions of competitiveness. This paper forms part of Avascent's broader European Defence Industrial Base forum, an initiative designed to stimulate debate on the future direction of the defence industry in Europe.

### **About RUSI**

The Royal United Services Institute is the UK's leading independent think tank on international defence and security. Its mission is to be an analytical research-led global forum for informing, influencing and enhancing public debate on a safer and more stable world.

Since its foundation in 1831, RUSI has relied on its members to support its activities. Annual membership subscriptions and donations are a key source of funding for the Institute; together with revenue from publications and conferences, RUSI has sustained its political independence for over 180 years.

RUSI is a registered charity (No. 210639).

For more information, please visit: [www.rusi.org](http://www.rusi.org)



Occasional Paper, September 2014

# **Prospects for the European Defence Industrial Base**

Christina Balis and Henrik Heidenkamp

The views expressed in this paper are the authors' own, and do not necessarily reflect those of RUSI or any other institutions with which the authors are associated.

---

Comments pertaining to this report are invited and should be forwarded to: Henrik Heidenkamp, Senior Research Fellow, Defence, Industries and Society Programme, Royal United Services Institute, Whitehall, London, SW1A 2ET, United Kingdom, or via email to [henrikh@rusi.org](mailto:henrikh@rusi.org)

Published in 2014 by the Royal United Services Institute for Defence and Security Studies. Reproduction without the express permission of RUSI is prohibited.

**About RUSI Publications**

Director of Publications:	Adrian Johnson
Production Editor:	Ashlee Godwin

Paper or electronic copies of this and other reports are available by contacting [publications@rusi.org](mailto:publications@rusi.org).

# Prospects for the European Defence Industrial Base

---

Against the background of today's strategic environment and dynamics of the defence market, European policy-makers can no longer delay a serious and inclusive debate about the future of the European defence industrial base. Such a debate must acknowledge the critical role of industry in sustaining European defence and Europe's ability to act effectively in the international system. This occasional paper examines the shortfalls of current approaches and outlines an agenda for a capable, sustainable European defence industrial base in an era of fundamental change.

## The Current State of Europe's Defence Industrial Base

Today's European defence industry has changed little since the wave of consolidation experienced in the 1990s. Despite the emergence of a handful of large prime contractors such as BAE Systems, the Airbus Group (formerly EADS), Thales and Finmeccanica, the European defence industrial base remains far more national and less integrated than the size of these companies would suggest.

For the most part, the continent's defence industrial capacity is located within the national defence technological and industrial bases (DTIBs) of the six Letter of Intent (LoI) countries<sup>1</sup> – France, Germany, Italy, Spain, Sweden and the UK – as well as a handful of smaller arms-producing countries, such as Norway, Finland, Switzerland and Poland.<sup>2</sup>

The top-thirty European defence equipment and technology companies across these ten countries generated an estimated €80 billion in defence revenues in 2011.<sup>3</sup> This is almost equivalent to the combined defence turnover of the top-three US defence companies. Early Avascent estimates suggest that in 2013 the same thirty companies generated less than €78 billion in total defence sales, and may have experienced a decline of up to 5 per cent during the past two years.

- 
1. The Letter of Intent (LoI) Framework Agreement Treaty was established to facilitate the restructuring of the European defence industry. It was signed on 27 July 2000 by the defence ministers of France, Germany, Italy, Spain, Sweden and the UK.
  2. Several post-Soviet EU member states like Bulgaria, the Czech Republic, Hungary, Romania and Slovakia, which used to produce (rather than develop) Soviet equipment, also retain some limited defence industrial capacities. (See Yudit Kiss, *Arms Industry Transformation and Integration: The Choices of East Central Europe*, SIPRI Monographs (London: Oxford, 2014).
  3. These figures exclude dedicated services companies with a large share of defence business, notably Serco plc and Babcock of the UK. See Christina Balis, 'State Ownership in the European Defense Industry: Change or Continuity?', European Defense Industrial Base Forum Occasional Paper, January 2013, <<http://www.avascent.com/wp-content/uploads/2013/01/Avascent-State-Ownership.pdf>> accessed 29 August 2014.

European nations' respective DTIBs differ significantly in structure, composition, company size, as well as ownership and the state's overall control over business decisions.

Notwithstanding the dominance of BAE Systems, the UK's DTIB features several sizable defence companies – not to mention a dedicated defence-services industry – as well as subsidiaries of many international companies considered 'British' for their contribution to the national defence effort and thus treated as key stakeholders in the government's recently launched Defence Growth Partnership. By contrast, the French, German, Italian, Swedish and Spanish DTIBs consist largely of a small number of national champions, with some duplication particularly in the French, German and Italian land sectors.

The control exercised by the state over national defence assets remains particularly strong in France and Italy, although state ownership is prevalent across the continent. The UK, Germany and a handful of smaller countries are the exceptions, although this does not automatically make them more open to foreign competition or cross-border consolidation. The UK – with its rather internationalised DTIB, featuring many publicly listed companies – exercises much less direct control over the defence industry, making use of 'golden shares' that allow the government to veto strategic decisions. German defence companies are traditionally owned either as a whole or in the form of majority shares by family holdings. The German government does not usually exercise direct control but has the legal powers to veto strategic decisions, and remains very protective of the country's industrial base as illustrated by the failed 2012 merger between then-EADS and BAE Systems.<sup>4</sup> Indeed, state ownership, national industrial policy and market openness assume very different permutations across Europe, with no simple dividing line between so-called liberal and protectionist countries.

#### *Fragmentation of Supply*

Defence industrial consolidation in Europe remains incomplete. Despite fiscal pressures and shrinking domestic defence markets, the industry's consolidation process has largely reached a standstill.

Cross-border defence consolidation has largely been limited to the air and missile domains. Joint ventures and interlocking ownership structures have

---

4. According to § 60 of the German Foreign Trade and Payments Ordinance (AWV), the German government can veto the foreign acquisition of as well as direct or indirect participation in a domestic defence company if essential security interests of the Federal Republic of Germany are endangered. See: 'Foreign Trade and Payments Ordinance', in Federal Law Gazette, p. 2865, <<http://www.bmwi.de/BMWi/Redaktion/PDF/A/awv-englisch,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>>, accessed 28 August 2014.

traditionally been the default European answer to the question of resource sharing. At the national level, meanwhile, industrial consolidation has more often involved stitching together companies with diverse portfolios rather than the genuine pooling of competences. Indeed, cross-sector consolidation at the national level is typically favoured over cross-border consolidation within sectors.

While governments recognise the benefits of scale (largely an efficiency argument), they tend to brush off the value of specialisation (a key source of competitive differentiation). The success of MBDA, Europe's leading missile manufacturer, derives precisely from that rare combination of scale *and* specialisation at a European level.

BAE Systems is most often cited as the successful European example of industrial consolidation at the national level, but this claim misses two fundamental points. First, the UK as a market is open to non-British defence equipment – from across the Channel as well as across the Atlantic – and its procurement policy does not favour exclusively domestic products. Second, BAE Systems does not even generate most of its revenues in the UK; nearly three-quarters of its sales are generated in countries other than the UK, with the US as its largest market. It is instructive that while BAE has not contemplated removing the 'British' reference from its name, the one company that stands for true European defence integration – the Airbus Group – has chosen to abandon the European allusion of its former name of 'EADS' in favour of the more successful brand of its global commercial business, Airbus. It appears that European defence – or, what the French have so distinctly coined '*Europe de la défense*' – has even fewer supporters at home than it has promoters overseas.

Judging from recent events, there seem to be two opposing trends at work across Europe. On the one hand, there are instances when governments have openly favoured consolidation of national assets within one overarching institution. This is the case in Poland, with the creation of a new Polish Armaments Group in late 2013 that is intended to bring together by end of this year up to forty state-owned or state-governed entities. Sweden has also recently encouraged national-level consolidation, with the acquisition in June of ThyssenKrupp Marine Systems' Swedish shipyard (TKMS AB, formerly Kockums) by aerospace and defence company Saab. Though both of these cases can be dismissed as the product of distinct local circumstances, other developments and forthcoming decisions in Europe's largest countries will test the seriousness of governments about resuming cross-border consolidation. Despite a growing inevitability of transnational corporate tie-ups, apprehension within the defence community remains high because of the attendant political and industrial risks.

The July announcement of the proposed merger between Germany's privately held Krauss-Maffei Wegmann (KMW) and France's state-owned Nexter is a welcome development for Europe's fragmented land sector. Although the deal's prospects are more promising than the more ambitious but somewhat premature merger attempt by EADS and BAE Systems, the challenges in closing the deal and, more critically, in the post-merger integration process remain real.<sup>5</sup> A similar European solution in the naval domain may seem more far-fetched, but is not impossible given the underlying dynamics between three of Europe's largest shipbuilders. While the French government mulls options to sell further shares in state-owned shipbuilder DCNS (35 per cent of which is already owned by French electronics company Thales) to meet its demand for more than €6 billion in exceptional receipts over the next five years, Italy has already completed its first, albeit disappointing, initial public offering of Italian shipbuilder Fincantieri, reducing the state's stake to 70 per cent. Meanwhile, Spain has wisely abandoned plans to merge its struggling state-owned shipbuilding company Navantia with publicly listed Indra Sistemas, opening the way for a potential cross-border European partner instead.

#### *Fragmentation of Demand*

Considering the timid efforts of European states to consolidate procurement, it is not surprising that Europe's national DTIBs form a rather incoherent European DTIB. European governments still tend to procure military equipment nationally, leading to significant redundancies and inefficiencies in the regional industrial base. As an illustration, consider the land systems sector. Europe harbours more than 100 basic types of armoured vehicles with seven different types currently in production, and there are three times more types than users of armoured personnel carriers across the twenty-eight member states of the EU.<sup>6</sup>

Data from the European Defence Agency (EDA) show that in 2012 only 16.8 per cent of member-state defence equipment spending was allocated to European collaborative procurement – the lowest share since 2006 when the EDA started compiling data. Instead, the share dedicated to national procurement reached 82.4 per cent in 2012, an all-time high during the recorded seven-year period. A similar trend is evident in defence research and technology (R&T), a critical subset of research and development (R&D), with 2012 recording the lowest share of European collaborative defence

---

5. See Christina Balis, 'A Perfect Match? The Unlikely Team-up of France's Nexter and Germany's KMW', European Defense Industrial Base Forum Occasional Paper, Avascent, 3 June 2014, <[http://www.avascent.com/wp-content/uploads/2014/07/Nexter-and-KMW-Merger-Thought-Piece\\_FINAL.pdf](http://www.avascent.com/wp-content/uploads/2014/07/Nexter-and-KMW-Merger-Thought-Piece_FINAL.pdf)>, accessed 29 August 2014.

6. See Christian Mölling et al., 'European Defence Monitoring (EDM)', SWP Working Paper FG3-WP No. 1, January 2014, pp. 13, 16.



R&T in seven years, at a mere 7.2 per cent of EDA member states' total R&T spending.<sup>7</sup>

This renationalisation of defence procurement has intensified in the aftermath of the European fiscal crisis that began in 2008. Faced with the critical challenge of addressing public budgets, the instinctive reaction of European governments has been to view defence as a legitimate 'budgetary quarry' from which savings can be swiftly realised with widespread public acceptance. In particular, the defence equipment and R&D budgets have significantly decreased in real terms. EDA data suggest that equipment procurement saw a compound annual growth rate of 3 per cent over 2006–12, which translates into flat or negative real growth. Even without accounting for inflation, EDA member-state R&D expenditures decreased by more than half during the same period.

The September 2014 NATO summit provided European member states with an opportunity to recommit to the Alliance's twin goals of spending a minimum 2 per cent of gross domestic product (GDP) on defence and 20 per cent of total defence budget on major equipment expenditure (which includes R&D). Their failure to do so is symptomatic of a deeper malaise affecting European defence. Europe's leaders remain content to have the US serve as the underwriter of European security – and global security writ large. Their reluctance to make the economic and political case for a sustainable security policy, eclipsed by their sole fixation on financial security, feeds an instinctive public aversion against larger defence budgets, even as opinion polls suggest broad support for current military operations.<sup>8</sup>

### **An Industry on the Verge of Fundamental Change**

European defence companies are taking action to ensure their commercial viability in a business environment that is ever-more challenging, even hostile. Defence firms face declining equipment and R&D budgets in their home markets and domestic customers seeking to transfer most of the associated development and production risk onto the private sector.<sup>9</sup>

Besides strategic portfolio management – involving a greater focus on building a company's commercial business or, where internal rebalancing is not an option, diversifying away from core defence markets – the most common

---

7. European Defence Agency, 'Defence Data 2012', 9 December 2013, pp. 20, 22.

8. Bastian Giegerich and Christoph Schwegmann, 'Sustaining Europe's Security', in *Survival: Global Politics and Strategy* (Vol. 56, No. 4, August/September 2014), pp. 39–50; German Marshall Fund of the United States, *Transatlantic Trends 2014*, 10 September 2014; Malcolm Chalmers, 'The Financial Context for the 2015 SDSR: The End of UK Exceptionalism?', RUSI Briefing Paper, September 2014.

9. See Henrik Heidenkamp, John Louth and Trevor Taylor, 'Strategic Options: Defence Business at a Pivotal Moment', *RUSI Journal* (Vol. 168, No. 2, April/May 2013), pp. 86–92.

response by defence businesses has been to pivot away from Europe toward the global defence exports market. Their concerted efforts to enter growing markets in the Middle East, Asia and Latin America – typically requiring the transfer of production, know-how and technology – are reshaping the nature of the European defence industry. The creation of new ‘global home markets’ has turned many companies into truly multinational businesses whose corporate strategy and, over time, customer allegiance is increasingly detached from their traditional Western home markets.<sup>10</sup>

Indeed, as companies seek to adjust to global market realities, their long-term strategic positioning in the European defence market will become untenable. With near-term defence market prospects remaining bleak, management will face increasing pressure from investors to make the case for an enduring presence in the European defence market. The exit from the defence sector is a real option for European companies with significant non-defence commercial activities. Even the alternative – the transformation of a company’s business model whereby, for example, production of genuine defence products is replaced by limited upgrades of civilian products for military purposes – implies a substantial loss of critical defence capabilities. This could result in an irreparable erosion of the national defence industrial skills base.<sup>11</sup> Moreover, it is far from certain that the surviving companies in the European defence sector would be the most competitive and agile. They would simply be the ones left behind after their rivals have exited the market. This raises significant doubts for the efficiency and effectiveness of Europe’s future defence industrial base if, for example, robust manufacturing capability remains but real innovation is long gone.

Policy-makers in Europe’s defence industrial capitals – as well as in Brussels – have yet to address these fundamental changes shaping Europe’s defence industrial base.

### **The Absent European Debate**

Europe’s main arms-producing countries have so far been reluctant to engage in a substantial debate about the advancement of European defence industrial co-operation. Four key reasons can be identified for the lack of progress in this area.

First, national defence industrial policy narratives remain predominantly shaped by an autonomy-centred conceptualisation of sovereignty. Defence industrial specialisation is still seen as a threat to a state’s security of supply

---

10. See Henrik Heidenkamp, John Louth and Trevor Taylor, *The Defence Industrial Triptych – Government as Customer, Sponsor and Regulator*, RUSI Whitehall Paper No. 81 (London: Taylor and Francis, December 2013).

11. See Henrik Heidenkamp, John Louth and Trevor Taylor, ‘Defence Skills: A Shift in the Myth’, RUSI Briefing Paper, June 2014.

and operational autonomy even as interdependence has become a fact of life in European defence. Operations in Afghanistan, Libya and Mali have shown that no European state is able to conduct major military operations without substantial support from other allies.

Second, economic protectionism has regularly prohibited much-needed rationalisation across the European defence industry. However, as the prominent case of the failed EADS–BAE Systems merger shows, the political ring-fencing of national DTIBs is short-sighted. After the German government's decision to veto the merger – motivated primarily by the political desire to secure jobs in the German DTIB – the rebranded Airbus Group initiated a far-reaching consolidation of its defence business activities, including a substantial reduction in jobs. A similar threat faces the French industry as further cuts to an already truncated defence investment programme are contemplated.

Third, the potential of multinational defence co-operation is still often judged against the negative experiences of the past – difficulties with the A400M transport aircraft and the NH-90 combat helicopter programmes being among the most prominent examples. However, recent reforms of national and collaborative procurement procedures, combined with smaller, more manageable partner teams, should streamline the requirements-setting process and head off unnecessary, and costly, late-term changes.

Fourth, defence industrial policy and, even more so, defence industrial strategy are in most countries at the bottom of the political agenda. Putting aside the continued economic and fiscal pressures, a coherent approach to European defence industrial policy would require national policy-makers to address an array of highly sensitive political issues, including transferring elements of national sovereignty, prioritising core defence industrial capabilities, and rethinking the role of government as sponsor and regulator of the defence industry. Coherent defence industrial strategies would allow European states not only to secure economic gains from defence – rather than just short-term savings – but also facilitate military freedom of action at the European level.

Of these four reasons, the absence of a long-term, coherent vision for Europe's defence industry is probably the most worrisome aspect of today's debate, as well as the most difficult to address. Several countries are expected to complete their own defence-policy reviews in the next six to eighteen months, including Germany, Italy, Sweden and the UK. Even small steps toward broader consultation with other European partners on industrial issues would constitute progress.

At the European level, the EU Council summit in December 2013 aimed to bring defence – including its industrial dimension – back onto the European agenda. In addition to highlighting some obvious gaps in capabilities and the need for increased transparency and information-sharing in defence planning, the Council's conclusions<sup>12</sup> drew attention to some key industrial priorities but fell short of putting forward an ambitious agenda for the future. All five areas highlighted by the Council – promoting an open EU market for defence, increasing investment in R&T, developing standards and certification procedures for defence equipment, supporting cross-border access for small and medium enterprises (SMEs), and implementing EU-wide security of supply arrangements – are elements of a much broader defence industrial agenda urgently needed at a pan-European level.

The European Commission – through its two reports released in July 2013 and June 2014 – has made laudable efforts in initiating important ideas and pushing forward their implementation. In its most recent report, issued in the aftermath of the December Council summit, the Commission has again sought to expand the debate by advocating an EU-wide approach toward the control of industrial assets and greater support of the European defence industry in third markets – two suggestions that point directly to the shortcomings of a national interpretation of autonomy in defence and security.<sup>13</sup> Ultimately, however, the Commission, with its limited executive powers, can only shape rather than lead the debate.

### **The Case for a Truly European Debate**

The combination of relentless defence cuts at the national level and continued fragmentation at the regional level means not only lost opportunities for European industry overall but also the gradual deterioration – possibly irrevocably – of resources and capabilities critical to the defence of Europe. Europe's continued failure to fund the development of a European medium-altitude, long-endurance unmanned air system is the most poignant illustration of Europe's self-inflicted damage. The result is not only decreased co-operation across Europe (and thus the perpetuation of serious inefficiencies in an age of austerity), but also increased competition between European companies internationally. Just as governments deny their taxpayers the benefits of sensible defence procurement, the same policies also limit the long-term international growth prospects of the defence industry and the workers that they are supposed to protect. In an environment in which global competition is growing and new industrial

---

12. European Council, 'Conclusions of the European Council (19/20 December 2013)', EUCO 217/13, 20 December 2013, Brussels.

13. European Commission, 'A New Deal for European Defence: Towards A More Competitive and Efficient Defence and Security Sector', COM (2013) 542, 24 July 2013; European Commission, 'A New Deal for European Defence: Implementation Roadmap for Communication COM (2013) 542', COM (2014) 387, 24 June 2014.

aspirants are emerging from countries that until recently seemed content to merely serve as markets for Western defence equipment, scale matters and no more so than in the case of Europe's highly fragmented defence market.

This rather gloomy picture should trigger concern for Europe's ability to act internationally. A capable European defence industrial base must be recognised as a multifaceted asset contributing to that elusive concept of political power. The industrial base plays a critical role in both preparing the military for operations and supporting various activities within the theatre of operations.<sup>14</sup> Other geopolitical powers commit substantial financial and political resources to the advancement of their own defence industrial capabilities. As Europe's defence industrial capabilities decline and those of its competitors increase, a growing gap risks becoming an unbridgeable and permanent reality.

The need for a truly European debate about the future of the region's defence industrial base is further stressed by the sector's economic importance. In 2012, the European defence sector employed almost 254,000 people, generated €96 billion in turnover, and invested some €3 billion in internal R&D.<sup>15</sup> Although the sector's contribution to Europe's economic performance is comparatively small when measured as a share of GDP, it is a source of innovation and productivity with spillover effects into other economic activities. As a recent EDA study suggests, military fighter programmes such as the Eurofighter or Rafale have contributed to Europe's competitiveness in the commercial aircraft market. Conversely, every cut in defence expenditure has a disproportionate impact on GDP so that each €100 million cut in EU defence spending results in a €150 million decrease in EU GDP and a loss of some 3,000 jobs, more than a quarter of which involve high-skilled positions.<sup>16</sup>

A loss of critical European defence industrial capabilities will also affect the transatlantic relationship. Operational experiences in Iraq and Afghanistan as well as the Ukrainian crisis have clearly highlighted that the US requires and desires militarily capable European partners. Such a capability rests on the continued nurturing of an agile defence-industrial base. Dependence on off-the-shelf equipment provided by third countries not only limits the benefits to the wider European economy but also constrains Europe's operational autonomy. Moreover, Europe will likely lose its industrial ability to upgrade

---

14. See Henrik Heidenkamp, John Louth and Trevor Taylor, 'The Defence Industrial Ecosystem', *RUSI Whitehall Report* 2-11, June 2011.

15. See ASD, 'Key Facts and Figures 2012', Brussels, <[http://www.asd-europe.org/fileadmin/user\\_upload/Client\\_documents/ASD\\_Contents/2\\_COMMUNICATION/2.5\\_Publications/2.5.2\\_Facts\\_and\\_Figures/ASD\\_Facts\\_and\\_Figures\\_2012.pdf](http://www.asd-europe.org/fileadmin/user_upload/Client_documents/ASD_Contents/2_COMMUNICATION/2.5_Publications/2.5.2_Facts_and_Figures/ASD_Facts_and_Figures_2012.pdf)> accessed 29.08.2014.

16. EDA, 'Spending that Matters: The Economic Case for investing in Europe's Defence Industry', press release, 28 July 2014.

off-the-shelf military equipment cost effectively to its requirements and increase its own engineering and production surge capacity in times of crisis.

### **An Agenda for Reflection and Action**

The arguments presented in this paper stress the need for concerted action on the part of European governments, in collaboration with industry and other key stakeholders, to halt and reverse the unfolding dynamics in the European defence market. Political leaders cannot afford to wait any longer – be it for domestic political, protectionist or more fundamental ideological reasons – to engage in a serious Europe-wide debate about the future of the regional defence industrial base.

This debate cannot be left to the traditional stakeholders: ministries of defence and the armed forces at the national level and the Commission and the EDA at the European level. The realities of today's defence market – increasingly diversified, dual-use and global in nature – and the varying sponsor and regulator roles played by various government departments at national level demand more inclusive formats for discussion.

Any discussion about the prospects for the European defence industrial base must acknowledge the critical role industry plays in facilitating the ability of European states to act effectively on their respective foreign, security and defence policies. The strategic relevance of the European defence industrial base, notwithstanding its undisputed economic importance, rests with its military dimension. Accordingly, the sustainment of regional defence industrial capabilities is vital not only to the LoI countries but also to European countries without a significant defence industrial base whose long-term security depends on a militarily capable Europe. It thus appears essential for European states to agree on **effective forms of assurance and security of supply**.

Protectionist measures have no place if there is to be a meaningful transition from a purely national to a European conceptualisation of autonomy that prioritises capability over assets. National defence equipment and R&T budgets are too low, major procurement projects too rare, technologically complex and financially risky, and international market pressures too high to sustain capable and agile national DTIBs that can deliver equipment on budget, on time and in the desired quality over the long term. Accordingly, states must collectively identify areas of **national industrial specialisation** and transition from the current approach of 'consolidation by default' to one of 'consolidation by design'. Several national defence strategies, including the UK's 2010 SDSR and France's 2013 Livre Blanc, pay lip service to specialisation. Making progress toward this goal requires concrete action. Co-ordination of national and European defence industrial sponsorship models

and a harmonisation of national defence planning cycles and procurement procedures are crucial.

Just as previous assumptions about market access and industrial ownership are becoming obsolete, so are beliefs about **what constitutes a coherent EDTIB**. Tackling this question would require a collective debate about the access of non-EU companies to the European defence market, the closely related issue of foreign ownership of defence companies operating in the European market, the increasing internationalisation and diversification of business activities, as well as the specific needs of SMEs in the defence market and their relationships with prime contractors – to name just a few of the complex items on the agenda.

Finally, much of the argument presented in this paper highlights that the prospects for Europe's defence industrial base fundamentally depend on the **harmonisation and consolidation of the demand side**. As already mentioned, a sufficient level of trust among European states in the reliability of agile support and security of supply during crisis is essential. Such assurance can only be generated through an evolutionary process around collaborative programmes that are actually useful in the future operating environment, require significant capital investment, are associated with economies of scale, and have widespread industrial and technological benefits.<sup>17</sup>

None of the four topics proposed here – security of supply, redefinition of the EDTIB, consolidation of supply, and harmonisation of demand – can be tackled in isolation of the others. Indeed, an honest, holistic debate about the future of Europe's defence industrial base must recognise the linkages between and among these themes. The fact that this is a tall order should not discourage serious debate and action.

---

17. See Trevor Taylor, 'Pooling and Sharing: What Projects Offer the Best Chance of Success?', *European Defence Matters* (No. 3, 2013), pp. 39–41.

## About the Authors

---

**Dr Christina Balis** is a principal and director of European operations at Avascent. Based in Paris, Christina supports corporate and financial clients operating out of or looking to expand to Europe and adjacent geographies. She has experience providing strategic advisory services, assessing market opportunities, and supporting merger and acquisition activities across a diverse set of defence, civil government and commercial markets. Christina brings unique perspectives to her client engagements, informed by broad, multicultural exposure and first-hand experience in consulting, corporate management and public policy. Christina worked for a number of years as a consultant with Avascent before transitioning to industry. Prior to re-joining Avascent in late 2011, Christina worked as vice president for strategy and corporate development at Serco Inc., the US subsidiary of international service company Serco Group plc. Prior to her consulting career, she was a fellow in the Europe Program of the Center for Strategic and International Studies (CSIS), a Washington, DC-based think tank. Christina holds a BA in European Business Administration jointly from the ESB Business School (Reutlingen, Germany) and Middlesex University (London, UK) and a MA and a PhD in International Relations from the Johns Hopkins School of Advanced International Studies (Bologna, Italy, and Washington, DC).

**Dr Henrik Heidenkamp** is a Senior Research Fellow for the RUSI Defence, Industries and Society Programme (DISP). His current research interests are the role of the private sector in defence, national and international defence management approaches and contemporary aspects of European and international security and defence policy. Henrik is also a lecturer, consultant and frequent media commentator on European security and defence industrial policy (including for *Bloomberg*, the *Wall Street Journal*, *New York Times*, *Gulf News*, *Economic Times*, *Deutsche Welle* and *Reuters*). He teaches regularly on the National Generals and Admirals Course (LGAN) of the German Armed Forces Staff College and acts as a mentor for the RUSI/University of Roehampton Business School PhD Programme. Prior to joining RUSI, Henrik has worked as a post-doctoral fellow for Queen's Centre for International Relations (QCIR) at Queen's University, Kingston, Ontario, Canada and as a research associate for the Centre for Security, Armed Forces and Society at the Royal Military College of Canada (RMC), Kingston, Ontario, Canada. He also worked for the military policy branch (Fü S III 2) of the German Ministry of Defence (BMVg), Berlin, Germany. His key responsibilities included the writing of strategic security and defence policy papers as well as speeches on various security and defence topics for the political and military leadership of the BMVg.



# RUSI Membership

RUSI membership packages provide privileged networking opportunities and benefits tailored to meet the needs of both individuals and large organisations.

## **Individual Memberships**

Individual memberships are suitable for those individuals who wish to join RUSI's growing network of policy-makers and practitioners. Benefits include regular updates from RUSI, including invitations to members' lectures and seminars, subscription to the *RUSI Journal* and *RUSI Defence Systems*. This package also offers members access to our renowned Library of Military History.

## **Corporate Membership**

RUSI's corporate-level membership packages, offering discounts to all RUSI conferences, are open to all organisations concerned with defence and security matters, and can be tailored to meet the business interests of both public and private sectors.

## **Concessions**

Discounted student and young persons rates are available for those under the age of 35. Concessions are also available for those over the age of 65. We also offer online membership to those wishing to access RUSI's content of analysis and commentary.

**[www.rusi.org/membership](http://www.rusi.org/membership)**