European Security

ISSN: 0966-2839 (Print) 1746-1545 (Online) Journal homepage: www.tandfonline.com/journals/feus20

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To cite this article: Daniel Fiott (2017) The EU, NATO and the European defence market: do institutional responses to defence globalisation matter?, European Security, 26:3, 398-414, DOI: 10.1080/09662839.2017.1352582

To link to this article: https://doi.org/10.1080/09662839.2017.1352582

EUROPEAN SECURITY, 2017
VOL. 26, NO. 3, 398–414
https://doi.org/10.1080/09662839.2017.1352582

Routledge
Taylor & Francis Group

The EU, NATO and the European defence market: do institutional responses to defence globalisation matter?

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ABSTRACT

The European Union (EU) and North Atlantic Treaty Organisation (NATO) are both institutions through which European states can engage in European defence–industrial cooperation. Each organisation embodies a unique set of institutional tools through which to manage issues such as the high and rising costs of defence procurement, technological innovation, defence R&D, standardisation, multinational capability programmes and interoperability. In short, the EU and NATO are institutional tools through which European states can manage the positive effects and negative consequences of defence globalisation. By drawing on an innovative conceptual framework derived from the institutional interaction literature, this article analyses how the EU and NATO interact with one another for defence–industrial issues. In doing so, the article principally aims to provide a conceptually informed analysis of the appeal of each body as a mechanism for defence–industrial cooperation and how each institution affects the other.

ARTICLE HISTORY
Received 19 December 2016
Accepted 5 July 2017

KEYWORDS
European Union; NATO; defence industry; institutional interaction

Introduction

2016 saw the development of a number of policy initiatives in the North Atlantic Treaty Organisation (NATO) and the European Union (EU) that are of interest to the defence industry in Europe and North America. Following the Warsaw Summit on 8–9 July, NATO members pledged to build a "stronger defence industry across the Alliance" with the objective of advancing "the military and technological advantage of Allied capabilities through innovation" (NATO 2016). This objective was also addressed as part of the EU–NATO Joint Declaration that was signed in Warsaw on 8 July. As the declaration notes, there is a need for "a stronger defence industry and greater defence research and industrial cooperation within Europe and across the Atlantic". For its part, the EU not only published a Global Strategy (EUGS) but it developed a specific Security and Defence Implementation Plan (SDIP) and a European Defence Action Plan (EDAP). Each of these documents called on EU member states to invest more in defence and defence innovation, but the documents also outlined a new vision for defence cooperation in the EU based on financial incentives. Both organisations therefore continue to see value in promoting defence–industrial cooperation among members,

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although each organisation uses different tools to do so. It should also be noted that in a sector such as defence, where private and public interests and roles interact and sometimes collide, there are limits to how far the EU and NATO can shape defence markets and national interests.

At the 2012 Chicago Summit, NATO made clear that a strong defence technological and industrial base in Europe and across the alliance is an "essential condition for delivering the capabilities needed for 2020 and beyond" (NATO 2014). To this end, NATO invests in Transatlantic Defence Technological and Industrial Cooperation with the explicit objective of being able to encourage transatlantic defence–industrial cooperation. Defence–industrial matters at NATO Headquarters in Brussels are guided on a day-to-day basis by the Defence Investment Division, which, with its directorates on Armaments (AD) and Security Investment, advises alliance members on procurement, interoperability, standardisation and capabilities. Furthermore, since 1968 the NATO Industrial Advisory Group (NIAG) has brought together approximately 600 industrialists from European and North American NATO members three times per year to provide the Conference of National Armaments Directors (CNADs)[1] with high-level advice on industrial issues, technology trends and best practices on interoperability.

For the EU, the European Defence Agency (EDA) promotes enhanced collaboration between EU member states and industry through a mixture of strategic and foresight planning processes such as the Capability Development Plan (CDP).[2] The EDA is the EU's specialised intergovernmental agency dedicated to defence capability and industrial issues. The EU also embodies a range of unique legal tools through which to stimulate and streamline European defence–industrial cooperation. For example, there are two defence–specific EU Directives on intra-EU transfers of defence equipment (2009/43/EC)[3] and defence procurement (2009/81/EC)[4] – known collectively as the EU "defence package" –, which are respectively designed to liberalise the supply of defence equipment in the EU and to ensure transparency and non-discrimination during the award of defence contracts. Finally, the EU is able to utilise a range of financial mechanisms to support Europe's defence industry, including the "Structural and Investment Funds", Horizon 2020[5] research grants and the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)[6] programme.

An interesting facet about relations between the two organisations is that while 22 countries are members of both organisations there is potentially much room for policy overlap and/or competition (see Hofmann 2009, Græger and Hautgevik 2011, Græger 2016 and Græger (2017) in this special issue). While many academic studies have focused on EU–NATO relations in a broader sense (see for example Cornish and Edwards 2001, Schimmelfennig 2003, Croft 2007, Smith 2011, and Koops (2017) in this issue for a comprehensive review of the various theoretical approaches to EU–NATO relations), this article specifically focuses on the defence–industrial aspects of the EU–NATO relationship. Each organisation has developed a unique set of institutional tools through which to manage issues such as the high and rising costs of defence procurement, technological innovation, defence R&D, standardisation, multinational capability programmes and interoperability. However, what is unclear is how, in the context of more historically problematic relations between the two organisations (e.g. Ojanen 2006), the EU and NATO relate to and interact with each other on defence–industrial matters.

This article is interested in understanding what animates each organisation and how they interact for defence–industrial issues. In this sense, the puzzle at the heart of this article is two-fold. First, both organisations are in part designed to improve the defence–industrial effectiveness of their respective members, so what explains why each organisation has developed different strategies to achieve this end? Second, and relatedly, what do these different approaches to defence–industrial cooperation tell us about each organisation? More specifically, what does policy overlap, institution-specific mandates and inter-institutional cooperation tell us about the nature of European defence–industrial cooperation? Addressing such questions, this article aims to provide a conceptually informed analysis of the inter-relations between each organisation.

To this end, the article is divided into three main parts. First, the article operationalises a conceptual framework designed by Gehring and Oberthür (2009) that may help explain how institutions such as the EU and NATO interact with one another when devising defence–industrial policy. Second, by using primary and secondary sources such as official documentation, speeches and academic literature, the article then analyses individual cases related to strategic concepts, defence expenditure, legislation and defence research in relation to the four typologies contained in the conceptual framework. In doing so, the article outlines the key differences between each organisation and it highlights the different mechanisms and tools used by each institution to encourage defence–industrial cooperation among their respective members. Third, the article concludes with some observations about the state of play of defence–industrial cooperation in the EU and NATO, and how more recent policy initiatives may affect the relationship between the EU, NATO and their respective member states.

Conceptualising EU–NATO relations

A number of theories seek to explain how institutions interact with one another. For example, Mörth (2003) has argued that institutions help frame different understandings of defence cooperation – EU institutions such as the European Commission may embody supranational and market-based understandings of cooperation, whereas NATO is firmly steeped in an intergovernmental and more militaristic perspective. There are more positivist accounts of such cooperation. Indeed, Sandler and Hartley (1999) have remarked how institutions are "mechanisms for correcting market failure and improving the operation of markets" (p. 204). In this regard, institutions are seen as a tool through which to reduce transaction costs and increase the benefits of cooperation (Sandler and Hartley 1999). Overall, economic analysis predicts that states will seek to use a particular organisation depending on the various "cost–benefit" equations each organisation offers. Governments are therefore likely to select the most appropriate institution based on which one reduces costs overall and leads to the largest transaction gains. Yet the benefits of an organisation such as the EU or NATO in defence–industrial issues will also be affected by the degree of commitment and investment made into that organisation by participating member states. In this regard, national governments weigh up both the "linkage benefits" and "linkage costs" associated with an organisation: e.g. cooperate and produce large economies of scale that reduce costs, but be prepared to incur interdependency costs from a loss of autonomy (Sandler and Hartley 1999, p. 231). This theoretical approach not only assumes that states cooperate on a

"cost–benefit" ratio basis, but that institutions can work to alter this ratio through the development of policies. In this way, institutions can compete to offer their members the best "cost–benefit" ratio possible.

However, scholars such as Gehring and Oberthür (2009) argue that interaction between institutions is more complex than just a simple "cost–benefit" ratio. What Gehring and Oberthür opine is that there is a causal relationship between institutions, so that decisions and performance in one institution will have a direct and/or indirect impact on another institution. When thinking about the causal interaction of institutions, Gehring and Oberthür (2009) suggest that "[i]nstitutional interaction will exist if one institution (the source institution) affects the development or performance of another institution (the target institution)" (p. 127). This definition of interaction is of importance, they argue, because otherwise "we would merely observe the parallel, but causally unrelated, development of two or more institutions" (Gehring and Oberthür 2009). In this regard, Gehring and Oberthür suggest that institutions may causally interact with one another on the basis of four different, yet inter-related, forms of interaction. First, institutions can affect each other when one institution adjusts its behaviour and preferences based on knowledge originating in another institution ("cognitive interaction"). Second, institutions can be affected when obligations arising in one institution influence the decision-making process of another institution ("interaction through commitment").[7] Third, the performance of one institution may directly or indirectly alter the behaviour of another institution ("behavioural interaction"). Finally, institutions may affect one another when the pursuit of a policy objective in one institution affects the pursuit of an objective in another institution ("impact-level interaction").

Using Gehring and Oberthür's approach not only allows us to employ a hitherto untested conceptual framework in relation to EU–NATO defence–industrial relations, but it also allows us to: (i) understand how institutions affect the behaviour and performance of one another; and (ii) study the range of actors below the level of institutions (i.e. states) that can influence the causal relationship between two institutions. Figure 1 summarises the approach adumbrated by Gehring and Oberthür but with specific reference to defence–industrial cooperation. In the empirical analysis that follows, each of the four

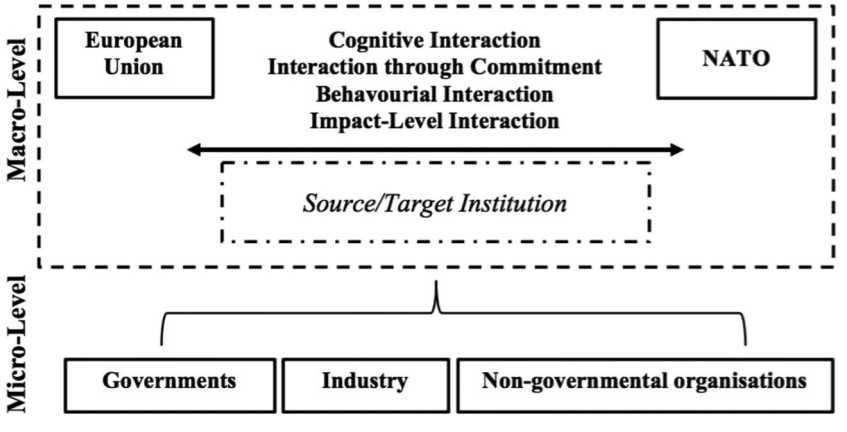

Figure 1. Four typologies of institutional interaction. Source: author's own.

types of interaction will be assessed in relation to a range of defence–industrial policy initiatives taken at the EU and NATO levels. Overall, the article is interested in uncovering instances where a causal relationship or interaction between the two institutions can be established. We will not only be looking for each of the four types of interaction during our empirical investigation, but also instances that show under what circumstances the EU and NATO become either the "source institution" or the "target institution". Furthermore, when these instances of interaction are highlighted, the article will also borrow Gehring and Oberthür's distinction between "micro-level" actors such as governments, industry and other actors and "macro-level" institutions such as the EU and NATO to better understand interaction between institutions, governments and other actors. Accordingly, the next section of the article is devoted to an empirical investigation of EU–NATO relations on defence–industrial policy.

EU–NATO defence–industrial interaction

Cognitive interaction

The first of our four forms of interaction to investigate is "cognitive interaction". Is there evidence of the EU or NATO adjusting behaviour and preferences based on knowledge originating in the other institution? This form of interaction is interesting because it involves learning, which, as Gehring and Oberthür remark, is something that cannot be imposed by one institution on another. As they state, "the source institution does not exert any pressure on the decision-makers of the target institution" (Gehring and Oberthür 2009, p. 133). However, what is crucial is that states that are members of one organisation will transmit lessons learned from this source institution to the target institution. One recent instance where this is the case is in relation to the United States" 2014 "Third Offset Strategy" and the way that this strategic concept has influence EU thinking on defence research. The Third Offset Strategy is a policy initiative being developed by the US Department of Defense (DoD) – thus, it has principally been adopted on a national rather than a NATO basis – and it is designed to find ways to use innovative technologies such as nanotechnologies, autonomous systems, cyber, lasers, etc. to ensure that the US military can maintain its military edge in the future. Indeed, the US government increasingly feels that "given the diffusion of defence technology across the globe, its long-held" military advantages over actual and/or potential adversaries may erode over time (Fiott 2016, p. 26).

At first glance the Third Offset Strategy may seem like an obscure strategic concept that has little bearing on explaining interaction between NATO and the EU. This would, however, be to overlook the way in which the Third Offset Strategy tries to marry military doctrine, operational lessons learned, technological advancements, procurement practices, the internal working practices of the DoD and government-industrial relations. In many respects, the Third Offset Strategy is not simply about ensuring that the US military has better defence platforms and capabilities than its adversaries, but it is potentially about a fundamental re-shaping of the way the US approaches defence research, development and procurement. Under the new US administration, it remains unclear how successful the DoD will be in promoting a new form of defence innovation within US government and industry. Nevertheless, the concept has already been promoted within

NATO structures and the Deputy US Secretary of Defense, Robert Work, has linked the concept to widening technology gaps within the alliance and the fact that NATO should work together to "figure out where the technological advantages lie" (Robert Work 2015).

This plea to fellow NATO members to take up the doctrinal and industrial challenges of the Third Offset Strategy is interestingly starting to have an effect within the alliance. In response to the strategy, for example, French defence minister Yves Le Drian announced that in 2017 France would invest €750 million in defence innovation through strategic funds that would be used to develop dual-use technologies and support innovative French SMEs (Meddah 2016). In the UK, the 2015 Strategic Defence and Security Review not only referred specifically to the Third Offset Strategy but on 12 August 2016 the UK Ministry of Defence announced that it would embark on its own Innovation Initiative (HM Government 2015, p. 75). To this end, the UK Government announced that it would create an Innovation and Research Insights Unit tasked with identifying new disruptive technologies and their implications for UK defence. Another strand of the UK's Innovation Initiative is a special innovation fund worth some £800 million (US$1.2 billion) over a 10-year period from 2015. Even firms such as Airbus Group (2016) have leapt at the potential opportunities afforded by the Third Offset Strategy by investing in offices in Silicon Valley and setting up venture capital funds.

For our purposes, the defence innovation drive triggered by the US DoD is even having a cognitive effect on EU-designed defence Innovation Initiatives. Indeed, one of the first EU institutions to pick up on the Third Offset Strategy and try to dissect its implications for European industry and EU defence was the EDA. As Simm (2016) states, Europe's own Innovation Initiative must facilitate the "scouting of emerging technologies for defence" not just for industrial reasons but also to ensure that Europe remains a capable defence actor (p. 16; see also Riekeles 2016, p. 21). Specific mention of an EU-wide Innovation Initiative can be found in the recently published implementation plan on security and defence; a document that is designed to implement the security and defence aspects of the 2016 EUGS. As the Plan states, such an Innovation Initiative is vital to ensure an "appropriate level of European strategic autonomy" (Council of the EU 2016, p. 23). The European Commission's 2016 EDAP, which sets out several proposals to encourage greater European defence cooperation (e.g. a European Defence Fund), goes further by not only specifically referring to the Third Offset Strategy but also stating that the Commission is willing to "mobilise EU funds to support defence research" to "strengthen the EU scientific and technological base" in defence (European Commission 2016, p. 7).

Such examples point to the EU serving as a "target institution" of policy changes occurring in the "source institution", in this case NATO – or to be more precise NATO Allied Command Transformation (ACT). ACT's Framework for Collaborative Interaction with Industry (ACT-FFCI)[8] actively seeks to engage industry on the strategic and capability-relevant aspects of NATO's transformation, and its Framework for NATO-Industry Engagement aims to increase the frequency of NATO–industry interaction. For example, an annual NATO-Industry Forum brings together ministry of defence officials, NATO officials, industry representatives, academia and think tanks to discuss issues such as allied interoperability and readiness. Furthermore, NATO's Framework for Future Alliance Operations is designed to communicate to industry the way in which NATO understands its strategic environment and what capabilities it is likely to need in the future. Within organisations such as NATO,

ACT the ability to link up strategic concepts such as the Third Offset Strategy with broader defence planning processes such as the NATO Defence Planning Process is traditionally much easier than is the case in the EU. NATO has a tried and tested process for marrying industrial issues, capability development and overall strategic guidance together.

EU institutions such as the European Commission are, however, new to the business of linking strategic questions with capability development and industrial issues (Fiott 2015a). The only institution at the EU level that has could perform a similar role to NATO's ACT is the EDA. The Agency seeks to enhance collaboration between EU member states and industry through a mixture of strategic and foresight planning processes, regular events and specific collaborative efforts related to airworthiness, defence energy, defence research, security of supply and standardisation. As Bátora (2009) has recognised, the EDA is principally an intergovernmental networking body where a range of industrial and strategic interests meet. Yet the EDA has not been helped by the EU's broader traditional aversion to funding defence research and capabilities. In a sense, therefore, the EU's recent steps to invest in defence research – which it is doing from 2017–2020 by dedicating €25 million per year to defence research programmes – is forcing bodies such as the EDA and the Commission to look for strategic concepts that help justify their defence innovation efforts. While any EU "Innovation Initiative" may look very different to any concept developed by the US or ACT, this is not to say that the cognitive framework that the EU is using to think about defence innovation investments and military strategy has not been imported – without any direct pressure – from the US via NATO and key EU member states such as France and the UK (for an example of how the EU and NATO think about key strategic issues see Duke and Gebhard (2017) in this special issue.

Interaction through commitment

What role does "interaction through commitment" play in EU–NATO relations on defence–industrial matters? Can one detect instances where obligations arising in either the EU or NATO have directly influenced the decision-making process of the other institution? A basis for this type of interaction is that there must be some level of membership and issue overlap between the EU and NATO. What is also important is that "interacting institutions must differ in some important dimension to create momentum for interaction" (Gehring and Oberthür 2009, p. 137). Perhaps one of the more obvious commitments that effects EU–NATO relations on defence–industrial matters relates to the "2% of GDP" defence spending target within NATO. Although not a formal rule, the alliance has consistently pushed for alliance members to increase their spending to 2% of GDP, and, within this amount, to allocate 20% of total spending to equipment, research and development and investment. This latter target having important implications for the defence industry. This informal rule has existed since the NATO Prague Summit of 2002 (Rupp 2006, p. 207).

In this respect, NATO has traditionally placed a much stronger emphasis on the issue of defence expenditure while the EU has, in turn, focused more on making efficiency gains through market legislation and increased cooperation. This is not to say that defence expenditure is not an important issue for the EU (Howorth 2001, Alexander and Garden 2001), but it is noteworthy that when EU officials speak about declining expenditures they do so in a manner that encourages greater cooperation and the common

development of capabilities – the reversal of declining defence expenditure is perceived as a collective effort rather than a largely national responsibility. So, for example, when the NATO Secretary General calls for greater defence spending he does so by saying "that more and more allies understand that they have to invest more" (Stoltenberg 2016). However, when the High Representative and European Commission Vice-President passes on a similar message a different tone is used that emphasises a need to make Europe's "defence spending more efficient and effective" (Mogherini 2016). In this sense, although both the EU and NATO focus on issues related to defence expenditure there exists the kind of subtle differences in the objectives of each organisation deemed conceptually relevant by Gehring and Oberthür (2009, p. 137).

Accordingly, there may well be evidence to suggest that NATO is the "source institution" and the EU the "target institution" in relation to defence spending targets. For example, it is interesting to observe that the EDA also adopted its own set of spending "benchmarks" in 2007. Unlike NATO, which monitors national spending levels, the EDA's benchmarks are entirely collective in nature so that each voluntary benchmark applies to the total sum spent by all EDA member states together. The targets principally include: 20% on equipment procurement (including defence R&D/R&T) and 2% on defence R&T as a total of overall collective defence spending. However, EDA benchmarks also include a specific collaborative set of targets including 35% as a share of total equipment spending on European collaborative equipment procurement, and 20% as a share of total defence R&T spending on European collaborative defence R&T (European Defence Agency 2016). In a sense, therefore, given that many governments are part of both NATO and the EU it is interesting to observe how states also managed to ensure that defence spending targets would, albeit on a voluntary basis, also guide the work of the EDA.

However, whether the fact that the EU adopted its own defence spending targets amounts to "interaction through commitment" is questionable. First, it should be noted that even within NATO most allies find it challenging to meet the "2%" rule. It is, therefore, difficult to make the case that stringent adherence to NATO targets has had a direct effect on the EU's own processes of tracking member state investment in defence – if governments do not adhere to NATO targets, why would they do so in the EU? If anything, certain governments that are members of both NATO and the EU may have seen an opportunity to move away from the "nation-specific" form of accounting within NATO towards a more collective system within the EU. Recall that the EDA's benchmarks are not only voluntary in nature, but they purposefully calculate targets on a collective basis – i.e. it is difficult to discern which specific countries are lagging on defence spending commitments. For smaller member states this may be a more appropriate way of calculating defence expenditure because any failure to meet the EDA benchmarks can be classed as "collective failure". For other governments, however, putting the issue of defence expenditure on the EU's agenda could also be a symptom of dissatisfaction with how NATO encourages allies to spend more on defence.

This appears to indicate that there has been little impact on EU decision-making processes (the target institution) because of NATO's political objective of increasing defence spending (the source institution). However, policy initiatives taken at the EU level in 2016 may yet allow us to observe a form of "interaction through commitment". First, the 2016 EU–NATO Joint Declaration is the first time both organisations have publicly

– and at a high political level – made a commitment to one another to enhance cooperation. The declaration could mark a step forward in cooperation, although by its very nature the declaration is a rhetorical act. Second, in the EU's SDIP published on 14 November 2016 member states took their first steps towards an intergovernmental "Coordinated Annual Review" that, among other things, would try to ensure "predictable budget planning related to collaborative projects and seizing opportunities for cooperation" (Council of the EU 2016, p. 22). The original inspiration for the "annual review" mainly came from a desire by certain EU institutions and think tanks to copy and paste the EU's "economic semester", which sees the European Commission annually provide analysis on the economic health of national economies, to the defence sector (see European Political Strategy Centre 2015, p. 8, Blockmans and Faleg 2015, p. 16, Drent and Zandee 2016). While it will take the EU some time before instituting the coordinated annual review, the process will mean changes to decision-making processes within the EU must be made.

Behavioural interaction

This sub-section is interested in analysing the level of "behavioural interaction" that exists between the EU and NATO. Recall this form of interaction is when the performance of say the EU may directly or indirectly alter the behaviour of NATO or vice-versa. As a basis for this type of interaction, there is a requirement "that the source institution actually exerts influence on the behaviour of relevant states" and non-state actors (Gehring and Oberthür 2009, p. 142). Such influence can come in the form of legal obligations that obligate a change in the behaviour of states and non-state actors. In this regard, the EU's 2009 "defence package" of two directives offer us an instance of where legislation adopted in one institution may have directly affected the behaviour of NATO. The two directives in question were seen by the EU as tools for defence market liberalisation in Europe, with Directive 2009/43/EC putting in place a harmonised export licencing system for transfers of defence equipment within the EU and Directive 2009/81/EC introducing minimum standards of non-discrimination for defence procurement. These two directives were the first time that the European Commission had legislated on defence market issues, and in doing so all EU member states – that is 22 EU member states in NATO, plus Norway – transposed the directives into national law.

In his study of EU–NATO relations, Blockmans (2013) shows that while NATO has directly influenced the military structures that were developed in the EU under the Common Security and Defence Policy, there is little evidence to suggest that NATO has influenced EU legislation on defence–industrial matters. As NATO itself recognises, the alliance "has no direct leverage on industry or market regulations" (NATO 2013). One could assume, therefore, that the European Commission's defence legislation could have a direct impact on the behaviour of NATO. But is there evidence to suggest that the EU (as the source institution) has been able to influence the behaviour of NATO on defence procurement and equipment transfers issues via the "defence package"? A closer look at the directives and other elements of defence-relevant law reveals that the "defence package" can only have an indirect impact on NATO's behaviour in defence procurement. While some US commentators viewed 2009/81/EC as a potentially harmful piece of legislation that could be used to lock-out US industry and thus impact NATO (see for example Yukins 2009), there is much in existing EU legislation to ensure that

European members of NATO can continue to enjoy the freedom to choose who to acquire defence equipment from.

First, EU member states have the right of derogation from the internal market provisions of the treaties on the basis of national security reasons under Article 346 TFEU.[9] Of course, the Commission is able to challenge whether a member state is seeking treaty derogation for economic reasons (e.g. defence offsets or job protection) rather than security (i.e. sensitive information or security of supply) through the European Court of Justice . Nevertheless, the invocation of Article 346 can and does occur when large contracts involving European and North American companies and governments occur. EU member states "have regularly resorted to the derogation clause in order to escape from community procedures" (Briani *et al.* 2013, p. 22). Second, the specific directive on defence procurement (2009/81/EC) does not apply to Government-to-Government contracts or where a contract would result in disclosure of sensitive security information. To this end, where a defence contract is awarded under the 2009/81/EC regime member states can use the "negotiated procedure" which allows national procurement agencies to avoid publishing technical specifications in advance of a tender (Weiss 2014, p. 31). This provision in the directive was specifically designed so that governments could retain their right to control their procurement regimes while also allowing for a minimum level of EU-wide regulation on procurement (Schmitt 2005, p. 30). Finally, the directive specifically makes no mention of defence offsets even though this form of state aid is specifically banned under EU law as being economically inefficient and discriminatory.

Overall, therefore, while EU defence legislation certainly had an effect on EU member states (plus Norway) it is questionable as to whether EU states that are also part of NATO then transferred this new behaviour to the alliance. If anything, at least the EU has been clear that legislative tools such as directive 2009/81/EC do not apply in those cases where governments act through international organisations such as NATO (see Article 12(a) of the directive) (European Commission 2009, p. 4). Intriguingly, even NIAG cautiously welcomed the EU's defence legislation and the group clearly saw the two directives as a way to inject legal clarity into Europe's defence market, even though they were wary of what EU legislation might do to industrial relations between Europe and North America (see NIAG 2011, p. 16). Perhaps one of the important reasons why NATO did not change its behaviour in light of EU defence legislation is because there is no single market governing relations between alliance members.

While the EU can link a range of Single Market policies and tools (e.g. economic policy and regional development) to the defence sector, NATO embodies a non-legislative framework through which to stimulate defence–industrial cooperation. In many ways, NATO and the EDA – rather than the Commission – share a similar intergovernmental, voluntary, approach to cooperation in order to afford member states the flexibility to choose partners for defence acquisition. Accordingly, even though many European governments have adopted EU defence legislation there is still a desire by governments to ensure that the EU and NATO embody very different "behavioural" approaches to defence–industrial cooperation. This is purposefully so. For states that prefer US equipment (either because it is more cost effective to procure off the shelf or because buying American comes with significant defence offsets) NATO makes an obvious choice for cooperation that should not be stymied by EU legislation. NATO purposefully has no binding structures or legal sanctioning mechanisms so that states can if they choose engage US industry

and the government to lock-in US interest in and obligations to the alliance. For those states that are wary of US competition, however, EU legislation offers a way of injecting the principle of non-discrimination into procurement and ensuring that non-EU countries do not attain an unfair market advantage when selling to the European defence market (Webber *et al.* 2012, p. 167, Biscop 2013).

Impact-level interaction

In this final sub-section the focus is on "impact-level interaction" and how the pursuit of a policy objective in say NATO will affect the pursuit of a policy objective in the EU. In this sense, interaction "does not depend on any action within the target institution or its domain, but rests on the 'functional linkage'" of the governance targets (Gehring and Oberthür 2009, p. 144). This final typology is ultimately concerned with the "functional linkage" between policy objectives in different institutions: i.e. that the objectives of one institution impinge upon another realising its objectives. One of the contemporary areas of defence–industrial policy that could result in "impact-level interaction" relates to levels of defence research investment and the concomitant ability to be a capable military actor. The inference here is that lower levels of investment in defence research in one organisation could lead to a deterioration of military capability in another organisation. For our purposes, it is worth analysing whether lower levels of defence research investment in the EU has a detrimental effect on NATO's ability to remain a capable alliance.

Of course, the bulk of defence research investment occurs at a national level. If European governments in both NATO and the EU spend less on defence research then this will effect both organisations. Nevertheless, under-investment in defence research has long afflicted European governments and the EU as an institution. Because NATO is still only a military alliance, there is a resource disparity between NATO and the EU (Webber *et al.* 2012, p. 196). For its part, the EU is able to mobilise the EU budget (or multi-annual financial framework) to support Europe's defence sector. For example, the European Regional Development Fund – worth €185 billion over 2014–2020 – has been used in the past for defence conversion and/or the modernisation of infrastructure. The EU has also committed financial resources to dual-use research under the Horizon 2020[10] programme – worth €79.4 billion over the 2014–2020 period –, and it supports small- and medium-sized enterprises through the COSME[11] programme – totalling €2.3 billion over 2014–2020. These investments have not, however, led to a direct increase in EU levels of investment in defence research because these investments have overwhelmingly focused on commercial and/or dual-use projects (Molas-Gallart 2002, Fiott 2015b).

Accordingly, one can argue that the EU's traditionally lower levels of investment in defence research serve as an "impact-level interaction", with NATO suffering the consequences of low investment in capability development and a disproportionate burden-sharing effort within NATO (the US taking up most of the burden). Indeed, with EU member state governments and NATO members not investing appropriate amounts into defence research this can be seen as a drag on NATO's desire to have a more militarily capable alliance. There has traditionally been an "R&D gap" between North American and European allies (see for example Bialos and Koehl 2004). Whereas in the US a sizeable amount of public money is invested in defence research, in Europe there has been resistance to an American approach to war and the relationship between European societies

and their militaries differ to the situation in the US (Galbreath 2015, p. 157). In essence, not all European members of NATO and the EU see value in investing in each type of military technology being developed by the US (see Adams and Ben-Ari 2006).

If a lack of European investment in defence research is having an adverse effect on NATO, then it is interesting to learn that the EU has recently decided to directly investment in defence R&D. In 2016 the EDA awarded contracts worth a total of €1.4 million for three pilot projects on defence research for autonomous systems, robotics, sensors and lasers. Following this pilot project, the European Commission will invest €90 million from 2017 to 2020 on defence research with the aim of apportioning €3.5 billion (or €500 million per annum) in the next Multi-Annual Financial Framework from 2021 to 2027 for a "European Defence Research Programme" (EU Institute for Security Studies 2016, p. 26). The EU's decision to invest in defence research is a "game changer" for the EU, not only because it represents a shift in the way the EU thinks about defence research but because it is pushing institutions such as the European Commission and the EDA to work much more closely than in the past (Fiott and Bellais 2016). Despite this shift, however, there are a number of challenges facing the EU as it invests in defence research – these challenges could also affect NATO too.

One recent study by the European Parliament surmises that there is absolutely no reason to believe that EU spending on defence research would have a detrimental effect on NATO. As Mauro and Thoma (2016) state, "a significant defence research programme in the EU will be most welcomed, given that it would strengthen the investments in defence research made by 22 European Allies" (p. 67). While this sentiment should be acknowledged, there is a more immediate challenge that needs tackling. Indeed, should EU member states decide to decrease defence R&T and R&D in line with increased EU-level investments in defence research, then this would hardly help these same governments meet the R&D spending targets within the EDA and NATO. The fear that EU-level investments may perversely incentivise some member state governments to cut or maintain at low levels national investment in defence R&D is a real one. As the European Commission (2016) recognises, "such funds must complement and catalyse national efforts, and not duplicate or substitute them" (p. 7). Working to avoid this situation from occurring is one way in which a future "impact-level interaction" between the EU and NATO can be avoided.

Conclusion

This article began by asking how the EU and NATO interact with each other in relation to defence–industrial issues. This article has drawn on a conceptual framework that specifically focuses on understanding how institutions interact with one another. By looking at four typologies of interaction – cognitive, commitment, behaviour and impact –, this article has focused on the ways in which the EU and NATO interact over strategic concepts, defence expenditure, legislation and defence research. There is no doubt that many more case studies could be examined in terms of the conceptual model employed in this article, so there is scope for further research. It should also be considered that cases may fall into more than one typology, so some degree of flexibility when using Gehring and Oberthür's model is required. Nevertheless, this article has outlined some of the unique characteristics of the EU and NATO and how each organisation can affect the other – either as the

"source" or "target" institution. Overall, this article has shown how there are no "Chinese walls" between NATO and the EU and so decisions taken (or not, as the case may be) in one institution have a direct and indirect effect on the other – there is, therefore, a certain degree of interdependence between the organisations.

In this regard, the first conceptually salient point to make is that the EU and/or NATO do not uniquely serve the purpose of cost reduction for their members. What has been observed is that the EU is currently building on the "learning processes" that have emerged from NATO, especially in the way NATO links up strategy with capability development, innovation and industry. The EU has not traditionally been the most effective institution at thinking strategically about military capabilities or defence innovation, although NATO has suffered from not having the same levels of financial resources found at the EU level. What has also been made clear in this article is that EU legislation has had a minimum impact on NATO and the way it regards defence procurement. Defence-relevant EU legislation has been crafted in such a way as to allow governments to benefit from non-discrimination and some degree of market liberalisation, while ensuring that sensitive procurement decisions taken in NATO or the national level are free from EU law. When EU law and new initiatives such as the EDAP are taken together, it is possible to argue that while the EU is learning from NATO on how to link strategic and industrial questions the EU is trying to become an automatic venue for industrial discussions and policy. It can do this because of its ability to formulate and enforce law and because of its budgetary resources – two factors that NATO does not have. Finally, while only a few causal links characterise EU–NATO relations in the defence–industrial domain, this article has shown how the development of new initiatives such as the funding of defence research require careful development.

It may seem rather clichéd to end this article by stating that the EU and NATO should work closer together. This point needs emphasising, however, given the present geopolitical era. Not only has the US president signalled that European NATO members will have to play (and pay) a bigger role in the alliance, but security threats on Europe's borders means that NATO–EU relations are set to intensify. This indeed explains why the EU and NATO agreed on 6 December 2016 to build on the July Joint Declaration with work on 42 areas of cooperation, including defence capabilities and industry and research. Although driven by security challenges and a shift in US foreign policy towards Europe, so far the joint declaration and the 42 action points remain largely rhetorical – tangible results are expected by the end of 2017. On top of this has been a multitude of new EU initiatives, including the announcement on 30 November 2016 that the EU would develop a "European Defence Fund" potentially worth €5 billion per year (European Commission 2016, p. 5). Such efforts have, of course, been applauded by NATO. Whether they will eventually be of benefit to the EU and NATO remains to be seen. Indeed, the degree of positive interaction between NATO and the EU is largely in the hands of governments. Institutions may innovate but the rubric of EU and NATO membership may continue to hinder cooperation on defence–industrial policy.

Notes

1. CNAD is the alliance's highest committee responsible for AD cooperation between NATO members. It brings together the National Armaments Directors of alliance members and it

is responsible for identifying areas of alliance collaboration on procurement, research and development of military capabilities.
2. The CDP was adopted in 2008 to help EU member states identify future strategic scenarios and to prioritise capability development on this basis. The CDP was reviewed in 2014 and a revision is planned for 2018.
3. Directive 2009/43/EC of the European Parliament and of the Council of 6 May 2009 simplifying terms and conditions of transfers of defence-related products within the Community.
4. Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC.
5. "Horizon 2020" is the EU's financial instrument dedicated to research and innovation.
6. "COSME" is the EU's financial programme dedicated to making it easier for SMEs to access finance for the full life-cycle of their business.
7. For a robust discussion on decision-making in the context of EU–NATO relations, please see Smith *et al*. (2017) in this issue.
8. ACT-FFCI is designed to enhance NATO collaboration with industry and academia at the non-procurement phase and ACT has the ability to purchase and contract studies, support and services for identified NATO capability shortfalls.
9. Article 346 TFEU states: 1(a) "no Member State shall be obliged to supply information the disclosure of which it considers contrary to the essential interests of its security"; and 1(b)

> "any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war materiel; such measures shall not adversely affect the conditions of competition in the internal market regarding products which are not intended for specifically military purposes".

10. "Horizon 2020" is the EU's financial instrument dedicated to research and innovation.
11. "COSME" is the EU's financial programme dedicated to making it easier for SMEs to access finance for the full life-cycle of their business.

Disclosure statement

No potential conflict of interest was reported by the author.

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