



Trump, Brexit and the future of European Defense

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with the new U.S. administration of President Trump?

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The state of the art at a quick glance. European countries are not well equipped to face their current security challenges, from Russia's conventional and hybrid challenge in Central and Eastern Europe, to domestic ISIS-sponsored terrorism, to the migration crisis, to the persistent instability in Northern Africa and the Middle East. Europe's problems point, more broadly, to the long-standing transatlantic gap in military capabilities, namely how much military power the two sides of the Atlantic are able to generate. This has different sources.

- European countries spend much less than the U.S. on defense. While the U.S. currently allocates over 4% of its GDP to defense, European countries, on average, just spend 1.1%. Even if returns on defense investments were constant across the Atlantic, given these levels of expenditure, the capability gap would be huge, with European countries generating just a quarter of American military capabilities. Other problems, however, further exacerbate this picture.
- European countries are, in fact, also generally small on a global scale and thus their individual budgets are extremely limited. Half of NATO countries' defense budgets are well below \$2 billion. On the one hand, even if substantially increased, in order to respect NATO 2% pledge, these budgets are not able to alter the strategic balance. On the other, small budgets necessarily allocate a higher share of resources to overhead: administration, facilities and logistics. Interestingly, this is true also of the relatively large European countries: basically only Great Britain spends less than 45% on personnel (in contrast to 30% in the U.S.), all the others are above 50%. This results in even smaller return on defense investments in Europe.
- Cooperation and integration are, theoretically, the two most appropriate solutions to counter these problems. However, historically, they have delivered limited benefits and, per se, they face several constraints. Cooperation and integration require trust and, in the realm of defense, trust is difficult to establish. For instance, regardless of the merits of the 2011 war against Libya, Germany (the largest EU economy) did not join the coalition (despite official UN support for the multinational operation). Her hesitation highlighted the risks of depending on Germany for any future cooperative project. Second, defense cooperation requires large investments to generate economic benefits: however, such resources are currently lacking in Europe, as just discussed. Third, defense cooperation is no easy fix: cooperative projects are often cancelled after a change in political priorities or because of their negative implications on domestic jobs or exports. This explains why only some 20% of European countries' defense budget goes towards cooperative expenditure.

European defense since the Eurozone crisis. During the Cold War, NATO represented the primary framework for defense cooperation. Since the demise of the Soviet Union, EU countries have created different institutions to enhance their mutual, i.e. non-NATO, defense cooperation. The Common Defense and Security Policy (CSDP) is primarily about crisis management – mostly in Europe's immediate periphery. Conversely, NATO is about much more demanding operations concerning collective security and out-of-area missions. Nonetheless, the CSDP has achieved mixed results. Most problems have remained largely unaddressed since the mid-1990s: the European defense market remains fragmented and the European defense industry characterized by overcapacity. Additionally, during the NATO operations in Libya, European countries lacked key capabilities in several realms, thus raising several questions about their eventual performance against more capable foes. Over the past few years, also because of the budgetary austerity imposed by the financial crisis, European countries have pursued different solutions to preserve existing military capabilities in times of decreasing budgets: NATO's "pooling and sharing" as well as EU's "permanent structured cooperation" (PESCO) are the two most notable examples.

However, both before and after the financial crisis, European governments and institutions have pursued alternative avenues:

- In 2009, the EU Commission approved and in 2011 implemented two directives aimed at liberalizing the European defense market and thus promoting efficiency and innovation within the European defense industrial base. In order to dismantle the protectionist measures characterizing military procurement at the national level, the directives make it compulsory for member states to comply with the internal market regulations and the prerogatives of the European Court of Justice. So far, however, the directives have not yet unleashed their full potential. There are several reasons for this, including the lack of new armament projects and resistance from some member states.
- In the recent past, European countries have increasingly relied on bi- or minilateral defense agreements in order to enhance their aggregate military capabilities: the Franco-British defense treaty, the Visegrad Group (a special arrangement between the Czech Republic, Hungary, Poland and Slovakia), and the NORDEFECO (Nordic Defense Cooperation – a military cooperation between Denmark, Finland, Iceland, Norway and Sweden) are probably the most important ones.
- Following the guidelines first laid out in a 2013 Communications from the EU Commission and later specified in a 2015 special report from Commissioner Michel Barnier, with the 2016 European Defence Action Plan, the European Commission has proposed the creation of a European Defence Fund for launching investment in joint R&D projects and for the acquisition of common defence equipment in support of CSDP missions. Inter alia, the project aims also at developing new cluster of suppliers, at fostering start-ups and at strengthening small, and medium enterprises and thus ultimately the solidity and innovation of the European defense market.

Free-riding between Brexit and Trump. Regardless of their merits, neither the Brexit process nor the policy changes announced by the Trump administration will ultimately alter the factors that have so far prevented European countries from spending more on defense or generating superior military capabilities. Thus, hopes for a European Defense Union, a European Army or a significantly more integrated European defense under any other formula are unlikely to be realized, at least in the medium-to-long term. What are then the consequences of Brexit and Trump for European defense?

Defense spending. In the years ahead, defense spending will follow four main patterns in Europe:

- Great Britain and the countries strongly connected to her economy will define their defense spending on the basis of the new and evolving security environment, but also in light of the post-Brexit (trade) relationship between the UK and the EU (as well as between the UK and the rest of the world). Great Britain is already observing a devaluation of its currency, and thus will have to pay higher prices for imported goods (including imported defense equipment, i.e. 50% of her procurement budget), will probably lose some economic activities to Paris or Berlin, and will have to bear the very costs of Brexit (some \$20bn). It is unlikely that London will honor her current defense commitments (defense spending from £34 in 2016 to £40 million in 2020) especially if negotiations with the EU Commission will be difficult and the economic impact of Brexit will be particularly hard. Ireland, the Netherlands and Denmark are strongly dependent on the British economy and, thus, are likely going to bear some costs as well, with direct implications on their military spending.

- Mediterranean countries (Portugal, Spain, France, Italy and Greece) face sluggish economies, budgetary austerity and the political growth of anti-establishment parties (Podemos in Spain, Five Star Movement in Italy and the ruling Syriza in Greece). These three factors contribute to preventing them from increasing significantly their defense expenditure, at least in the short term.
- Central and Eastern European countries are substantially increasing their defense spending. However, with the exceptions of Germany and Poland, their economies are extremely (Baltics) or relatively (the other Visegrad members) small and thus cannot generate significant additional military capabilities on a continental scale.
- Scandinavian countries are the other main source of growth in defense expenditure within Europe. However, their current defense capabilities are geared against Russia's conventional and asymmetric threats and thus cannot be easily redeployed elsewhere. Submarines for coastal surveillance in low salinity waters, maritime patrol aircrafts optimized for anti-submarine warfare and land forces for arctic operations are indeed of limited utility elsewhere. Additionally, although wealthy, these countries are relatively small, and thus their overall contribution, especially in terms of manpower, is necessarily limited: less than 10 million people live in Sweden and slightly more than 5 million in Denmark, Norway and Finland. Denmark (NATO and EU but not EDA member) and Norway are strongly aligned to NATO, while Sweden and Finland (EU and EDA member but not NATO) have extremely good relations with the United States.

Cooperation. As a result of the growing security challenges Europe is facing and of the Anglo-British retrenchment from the continent, many scholars and policy-makers expect European defense cooperation to increase further in the years ahead. A moderate skepticism is warranted.

- Great Britain is the first military spender in Europe, the leading military player with France, and with France and Germany the primary defense industrial actor. At the moment, her retrenchment from Europe should not question existing defense cooperation agreements with EU member states, and in particular France. However, in the years ahead, Great Britain is likely to look beyond Europe for defense cooperation projects – especially as she is interested in partners to sign free-trade agreements: the US, Australia, India, Singapore, Turkey, Japan and several Gulf countries are the primary candidates. Self-evidently, this could weaken defense cooperation in Europe, both because Great Britain has historically played a central role (*Tornado*, *Eurofighter*, *A400M*, etc.) and because a stronger Franco-German defense cooperation could possibly attract little sympathies from countries like Italy, Spain, Poland or the Netherlands which may fear the creation of a “cartel” inside the EU. As Victor Hugo famously noted, however, what for the fearful means the unknown, for the courageous, it means opportunity. It is thus not impossible that these developments may be exploited for promoting stronger defense cooperation among core EU countries (Germany, France, Italy, Belgium, Netherlands and Luxembourg). Whether, how and when this will happen is difficult to say: in light of past experience, EU institutions are likely to play a more significant role.
- Northern, Central and Eastern European countries will continue pursuing their bi- and mini-lateral cooperation. However, the United States may play a key role in this context and eventually undermine current and future European defense cooperation efforts. First, euro-skepticism is relatively strong in several of these countries (The Netherlands, Denmark, Poland, the Czech Republic, Hungary and Slovakia): Trump's example and policy choices could further embolden anti-EU parties. Second, Trump's calls for a more equitable defense burden could immediately translate in requesting that EU countries

increase their purchases of military equipment from the United States – and thus not from the rest of Europe. Ultimately, this could create political divisions and tensions within the EU.

- Key member countries, France and Germany, will hold general elections in the course of this year. Their future governments and their respective defense policies will be of fundamental importance for the future of European defense cooperation. At the moment, it is very difficult to predict the outcomes of both elections, as Angela Merkel is for the first time struggling in the polls in Germany, while the abrupt fall François Fillon in France has opened the contest between Marine Le Pen and Emmanuel Macron.

Integration and institutions. The role of both the European Commission and the European Defence Agency are due to rise in the years ahead. The impact will be significant especially because, at the moment, member countries have been more reticent. The recently created European Defence Fund has a €90 million-endowment and by 2027 it should hit €3 billion per year. Although not comparable to the \$70 billion the U.S. spends annually in defense research, this fund can address serious problems national governments have neglected, like the impact of the financial crisis on the supply-chain and promoting innovation stemming from small and medium enterprises.

Brexit (at least in the short-term) will likely shake the European Union. First, the challenge of re-arranging, re-assigning and rebalancing interests and powers within the EU may create tensions and acrimonies that, at the end, could undermine trust among member states. Second, without the UK, European defense industrial autonomy, as stated in the June 2016 *European Union Global Strategy*, may be more difficult to achieve. Without the British aerospace industry, her cyber and electronic warfare capabilities as well as her competitive and innovative supply-chain, it will not be easy for Europe to become independent in military technology. Last but not least, the interaction of Brexit, Trump's skepticism towards NATO, and the conventional vulnerability of Northern, Central and Eastern Europe, could ultimately strengthen in the medium terms the role of NATO. How European governments will react in the medium-to-long term is more difficult to predict as both endogenous electoral dynamics as well as exogenous developments (U.S., Russia and Middle East) will exert enormous influence.

Defense Industrial policy and consolidation. Based on this analysis, a radical consolidation of the European defense industry seems unlikely. On the one hand, over the past few years, and through small steps, European countries have already addressed some of the existing overcapacity and duplications characterizing their defense industry. On the other, there is limited appetite for policies that could negatively impact domestic employment and know-how. Arms manufacturing is in fact based on skills, technologies and competencies that require decade-long investments. Consolidation entails shutting-down facilities in excess and countries are not very keen to lose skills that enable them to win future export contracts or to produce equipment needed for national defense. Recent disagreements between Germany and Sweden on submarine production highlight these problems. Future US defense industrial policy will have an important role to play in this realm as both BAE Systems and Leonardo-Finmeccanica have a strong presence in the US defense market.

Where do we go from here: a few policy proposals. What to do and where to go from here? European defense problems cannot be easily addressed because of budgetary pressures, on the one hand, and sovereignty considerations, on the other. Unless either of the two is removed, Europe will not be able to move swiftly towards a more capable or integrated defense.

- **Learning from past mistakes and making full use of existing mechanisms.** Over the last year, with the *European Union Global Strategy* in June, the Security and Defense Initiative Plan (SDIP) in mid November and the European Defense Action Plan (EDAP) at the end of November, different ideas and proposals have been put on the table, sometimes echoing past initiatives. Some of them can, however, improve the current situation especially because they can draw on past mistakes and failures. For instance, the SDIP recommended the creation of a voluntary Coordinated Annual Review on Defense (CARD) that would assist member states in the synchronization of their defense planning. This proposal echoes the 2003 European Capabilities Action Plan (ECAP), but the voluntary mechanism introduced with CARD as well as the stronger coordinating role played by EU institutions (especially the European Defence Agency, whose activities started in 2005) may now help achieve more tangible results.
- **A NATO/European Offset Strategy.** Between 2014 and 2015, the U.S. government launched and formulated a *Third Offset Strategy* aimed at integrating technologies from the “second machine age” like robotics, machine learning and big data into its armed forces. This initiative is likely to generate a new revolution in military affairs. European countries should follow this path: their recent initiatives can perfectly fit these needs and should be steered in this direction. First, it would counter Europe’s technological delay vis-à-vis the United States especially in tomorrow’s technologies. Second, it can enhance European military capabilities in the context of NATO-led coalition warfare. Last but not least, it would strengthen the European defense industrial base, especially in the domains that will comprise tomorrow’s technologies.
- **Smart competition.** In the current strategic environment, trust and cooperation among military services are fundamental for increasing the military effectiveness of joint operations, in which land, air and naval forces operate seamlessly. However, over the past decades, this trust and cooperation has also moved outside the battlefield and into to corridors where defense policy is formulated. This has several positive benefits but also negative implications. This applies in particular to force structure and procurement where consensus among the military services ultimately runs the risk of stifling innovation. In the past, a certain level of competition among military services promoted in fact important innovations that turned not only to be operationally more effective but also economically more efficient: the development of the U.S. nuclear-powered ballistic missile Polaris submarine is probably the most prominent example. In an age of rapid technological change and compressed budgets, Europe could try to adopt this strategy. More precisely, defense cooperation should move toward a different kind of partnership: from a top-down model where governments, based on their armed forces’ inputs, instruct the industry about their needs to a more bottom-up approach in which military services develop competitive ideas for addressing different operational problems and, at the end, governments select the most efficient solution. For instance, what should suppression of enemy air defenses look like in the future? Competition among different military services may lead to innovative ideas or to savings. For instance, EU Air Forces may partner to recommend the development of new, more capable anti-radiation missiles. Cooperation among some EU Navies could suggest the development of swarms of drones. Marine Forces could, in contrast, propose cyber and electronic-warfare capabilities only. Importantly, disagreements may also exist among different national Air Forces or Navies. However, these differences represent an important advantage as they may help understand technical problems or identify more effective solutions. Importantly, European governments

individually or in partnership would still enjoy all their autonomy when making their decisions. However, on the basis of the available alternatives, their choices would be much easier to assess (and thus to criticize). In other words, competition can make the process more transparent - thus strengthening its legitimacy - and more efficient and effective, especially when technological change must be plugged into the equation.