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The European defence market is undergoing profound changes. Four distinct trends are altering the landscape of European defence acquisition, with some of them underscoring the shift of defence matters from national capitals towards the European Union (EU). First, participation in international operations is substantially affecting acquisition priorities. Second, this change on the demand side expands the defence market to a broader range of companies, which are not traditional defence firms. Third, the EU is displaying a rejuvenated commitment to consolidate its fragmented defence market. Fourth, US efforts to reform export control regulations will considerably impact the supply decisions for European defence acquisition. A key question is how the combination of these trends will influence the transatlantic defence market and industry

### Shifting Defense Priorities

Europeans are slowly starting to reconsider how to best allocate their limited defence funds. One driver in this process is the experience of deployments in hostile environments. The resulting insights will continue to fuel a shift towards different acquisition priorities in Europe. This trend has generated increased emphasis on specific platforms such as helicopters and armoured vehicles. However, priorities will shift even more substantially towards less platform focused acquisition activities. The selection of capabilities such as counter-IED and ISTAR architectures as key action items within the European Defence Agency's (EDA) Capabilities Development Plan already reflects this trend.

### An Expanded Supplier Structure

The change on the demand side also carries important repercussions for the supplier base. Newly emerging requirements open the door for companies from "adjacent" industry fields that apply their civilian products to the military market. For example the German company SFC, which initially provided fuel cells for RVs, is now offering lightweight power sources to the military in response to the increased military demand for man-portable batteries. In its Strategy for the European Technological and Industrial Base the EDA actively promotes such trends of closer integration of the European Defence Technological and Industrial Base (EDTIB) with the overall European industrial base. One implicit goal of this diversification of suppliers is to reduce dependencies on non-European sources.

### Defragmentation of the Defense Market

On the regulatory side, the EU adopted directives on the intra-EU transfers of defence products and on EU defence procurement. The transfer directive will substantially reduce administrative burdens for intra-EU cross-border transactions through standardized licensing mechanism. The expected advantages are considerable; besides time and cost savings, the higher predictability

of transfers will facilitate and simplify the creation of cross-border supply chains and turn the EU defence market into a more even playing field. Yet US companies and their European subsidiaries will probably not fully benefit from this directive due to US export regulations that treat the EU neither as a common nor a trusted market. In fact, the EU directive might actually create a comparative disadvantage for US defence companies towards their European peers.

For the procurement directive, the key objective is to open the EU defence market to EU wide competition. A core feature of the directive is the requirement to have a minimum of three bidders in each solicitation. This should in most instances ensure that competitions incorporate non-domestic sources. However, the decision of whether to allow non-European bidders to fulfil this obligation remains with the individual member states. This means that the actual level of US access to the European defence market will not automatically increase through this directive. Rather, this decision will still largely be determined in the national capitals.

## US Export Control Reform

The actual extent to which above identified dynamics impact the transatlantic defence market and the US defence industry will be significantly shaped by US decisions on export control regulations. The central effort currently under way in this regard is the US-UK treaty. The treaty has been criticized in Europe for its bilateral focus, which neglects to recognize the EU as an increasingly unified actor. These differing systemic approaches complicate coordination efforts. For instance, ITAR regulations of the US-UK treaty create incompatibilities with the intra-EU transfer directive. British companies might therefore be forced to subscribe to only one of the two frameworks, while foregoing the benefits of the other. An impact assessment on the EU concluded that friction points should be negligible as ITAR regulations apply only to a minority of intra-EU transfers. Nevertheless, this example illustrates the relevance of US export controls for the larger issue at hand.

## Implications

The above trends have varying implications for the European and US defence industries as well as the transatlantic defence market. For intra-EU transfers, they will provide EU based firms with a comparative advantage in the European market as they will be able to fully leverage the benefits of increased security of supply. At the same time, the European defence industrial base will expand to incorporate companies from defence adjacent fields due to shifts on the demand side. US defence companies and their European subsidiaries could potentially benefit from increased market access through the EU procurement directive, depending on the policies of individual EU member states.

Concurrently, the incompatibility of US export controls with the EU transfer directive might limit business opportunities for US firms in Europe. For the transatlantic defence market as a whole, differences in systemic outlooks constitute one of the most apparent problems. The US approaches the transatlantic market primarily on a country-by-country basis. As long as decisions on European defence acquisition are formulated mostly at the national level, there is merit to this strategy. However, the centre of gravity in defence matters is slowly shifting towards Brussels. As it does so, a more open transatlantic defence market will increasingly

depend on the alignment of US policies with European integration.

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