

# "European Defence Capabilities and Procurement – Progress Made and Future Challenges"

Es gilt das gesprochene Wort

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Good morning, Ladies and Gentlemen,

And welcome, once again, to the 6th Berlin Congress on European Defence. It is my pleasure to take part in this conference, which comes at an interesting time, as anyone who has followed the recent developments of defence policy – and especially defence procurement – in Europe will surely agree.

I am especially grateful to the organisers for having been given this speaking slot directly after the distinguished Chairman of the EU Military Committee, General Bentégeat, and his presentation on *"EU-Battle Groups - Building the forces to fit the fight"*. I think that, having heard the military view on Europe's requirements for crisis management, it is now a logical next step to ask how our forces can be equipped with the necessary tools to fulfil their diverse set of tasks. And I am here to present you an industry perspective on this.

Some might argue that what I am talking about – capability development and defence procurement – has been discussed at length for several years now; that everything that can be said has been said already, not only by everyone,

but by everyone several times... Actually, having spent years in this business and visited quite a few conferences like this one, I sometimes get the same impression. But before you all start to pack up and leave: I believe that there are yet some valuable new lessons, underpinned by recent events, which are well worth reflecting on. So please let me share some thoughts with you.

What I am planning to do in the next 30 minutes (including of course some time for discussion at the end) is, based on my experience as representative of a large European company in Brussels, to assess:

1. Where we stand with regard to improving our defence procurement processes in Europe
2. What we can learn from recent events – successes and, even more so, from failures
3. Which way we should go in the future

That sounds simple enough. But as you know, it will get complex as soon as we enter into the details.

### **[Where do we stand?]**

When I am asking “where do we stand with improving procurement” I am obviously assuming that improvement is necessary. I guess I do not need to take too much of your time elaborating on this, as the background situation is well-known. Actually, it can be summed up in three short sentences:

- Defence and security missions are becoming more numerous and more complex, requiring state-of-the-art equipment.
- The price of such equipment is ever rising.

- Budgets are, and will be, under pressure.

Hence the need to make spending more efficient.

So if we re-visit Javier Solana's famous quote that we must "*spend more, spend better, and spend more together*", we must know that taxpayers will not be ready to spend *more* as long as long as we are not spending *better*. And based on that – and this, by the way, will be the recurring topic of my presentation – as Dr. Solana's statement intelligently implies: Spending *better* and *spending more together* is not necessarily the same thing.

So, where do we stand? I will not get into details of what may have been improved on the *national* level: I want to concentrate on *multilateral* approaches – as there is broad agreement that the main weakness of European defence procurement is its fragmentation. The two main pillars of my presentation will therefore be, not surprisingly, the European Union and NATO. The interesting thing – as I will demonstrate – is that the lessons learned from recent activities of both organisations, despite their very different scope and working procedures, are actually pointing in the same general direction. So while it is true that much has been said about procurement, in my view the necessary conclusions are now more clearly visible than ever before.

## **[NATO]**

Let us start with NATO: The Alliance continues to be the forum for many kinds of defence-related cooperation between its member states. As far as

procurement is concerned, NATO is following multiple approaches. The NATO Security Investment Programme is addressing common requirements, nowadays for crisis management as well as for fixed infrastructure in Europe. Despite the challenges of decision making by committee, it is fair to say that NSIP funding, which covers a broad range of different requirements out of a budget of 640 million euros per year, is pretty successful in meeting its objectives. Then there are many small-scale cooperative efforts in Research & Technology, standardisation and the like. Finally, there is NATO joint funding, that is, major cooperation programmes for the development and acquisition of cutting-edge technology. This category includes some very successful items such as the Eurofighter, just to mention a product that my company is building. However, these are not really NATO projects in the sense that, while they do fall under the NATO umbrella, they are run by a small group of nations, and the acquired capability is nationally owned and operated.

Finally, there are NATO's true flagship programmes: Large, joint-funded programmes, in which a majority of Allies is participating. Besides their financial weight, such programmes are of paramount political importance, given that the resulting NATO-owned and operated capabilities are a key element of Alliance cohesion and identification. The NATO AWACS fleet is the best example.

### **[AGS]**

However – and you all know what I am getting to now – another big, joint-funded programme that was meant to deliver a capability as decisive as

AWACS, and was seen as a symbol of the strength and innovativeness of the Alliance, never really got off the ground. Actually, this programme called Alliance Ground Surveillance, which had been the top priority of NATO's armaments activities for more than a decade, probably close to 15 years, has been – at least in its original form – a colossal failure.

AGS is definitely not dead, and I have no doubt that the capability will be delivered to NATO forces in the end. But the fact that so much time was wasted on a programme that was then killed after years of work, in order to start again with a totally different approach, is obviously far from efficient in terms of time and resources.

There are different explanations for what happened to AGS and why, but I think we can all agree that such incidents should be avoided in the future. It is therefore worth taking a closer look at the AGS case.

First, the obvious question that comes up from what I've said before is: Why was AWACS a success, while AGS was not? This is relatively easy to explain, as the two programmes are different in nature. While AWACS was basically the joint acquisition of an American solution by NATO, AGS was intended as a technology development programme. As such, given the complexity of the planned elements to be developed – the mission aircraft, the ground segment and the radar – AGS was really a programme without precedence.

The fact that almost all NATO nations participated was initially seen as a strength – and industry successfully reflected this in its proposal by providing for industrial benefits to all participating nations. However, over time several drawbacks could be observed:

- It is well known that a collaborative programme advances at the speed of the slowest participant. With so many nations, the probability that, at some crucial moment in the programme, at least one would be facing elections, budgetary constraints, a review of capability plans or other factors inhibiting it from taking a decision, was actually close to 100%.
- This problem was compounded by a general challenge related to NATO decision making. While no one would question the basic set-up of NATO governance, i.e., specialised committees deciding by consensus, questions are in order with regards to AGS:

AGS was handled by the Conference of National Armaments Directors (CNAD), which is normal for NATO armaments programmes, at least in the beginning. However, while for other NATO programmes at some stage responsibility passed to their respective Steering Committees or specialised NATO agencies, AGS never left the political level of the CNAD. This is understandable, because as long as there was no agreement on the programme's fundamentals, implementation could obviously not begin.

However, it is difficult to understand why all major decisions had to be taken by the CNAD at Armaments Directors' level – a body that only meets once every six months! Taking into account that sometimes not all documents were available in time for nations to prepare these decisions, the pace of decision-making became even slower. Given that the CNAD has a permanent body at NATO HQ in Brussels, the NADREPS, which normally meet every two weeks, the obvious question is why this forum was not used to move the programme forward more quickly based on guidance from national capitals to their permanent staff in Brussels.

- The third and, in my view, decisive weakness of the AGS model of programme management was the failed attempt of being too comprehensive: For one reason or another, there never was a process for sorting out the different expectations – and there were really fundamental differences – that nations had about the programme. At several points it was visible that a group of nations would have been able to move ahead as a smaller coalition. However, doing that would have meant excluding others, which proved to be politically unacceptable. The result then was a total blockage – clearly inferior to a joint programme by a smaller group that would have delivered a capability. (Since about the capability requirement, there was never any serious doubt.)

To sum it up, the core reason why the AGS Programme of Record stalled – after enormous work had been done and millions of euros invested by NATO and industry alike – was the lack of a possibility to move ahead without those

who could not, or did not want to, whole-heartedly support the programme. Coupled with the speed of decision making I described before, the result was a long and painful process ending up almost where it had started.

I will come back to these findings later. For now, it is time to address the second, no less interesting item of my analysis: The European Defence Agency.

### **[EDA]**

As opposed to the long-standing structures and procedures of NATO, EDA is a rather new actor, which has been operational for a bit less than three years now. In this time, however, the Agency has been highly active, and its activities allow us to draw some general conclusions about multinational armaments cooperation the way we did from the NATO AGS programme.

Out of EDA's fields of activity – capabilities, armaments, industry & market, and R&T – the most valuable lessons for this speech can be drawn from R&T. The reason is that, while EDA has done important and successful work on the regulatory side (Industry & Market) and in coordinating capabilities planning, this has not yet translated into concrete armaments cooperation activities, such as major collaborative programmes launched in an EDA framework.

The EDA model of cooperation has thus only been implemented in practice for R&T projects. This model, consisting of two approaches referred to as

“Category A” and “Category B” projects, is defined in the Council Joint Action establishing the Agency.

Out of these two models, Category A denotes a programme in which “in principle” all EDA members participate, but those who don’t want to can opt out. Category B starts with a smaller group that can be joined by others (“opt in”) according to pre-defined rules.

Please note that both types are ad hoc, that is, EDA has no fixed budget for such programmes but relies on case-by-case contributions from nations. There is so far no EU equivalent of NATO’s NSIP budget. Category A and B can best be compared to NATO joint funding, where sometimes almost all nations participate (the old AGS at 23 nations, comparable to Cat. A) and sometimes just a small group (e.g. Eurofighter or MEADS, comparable to Cat. B). If you think about it, although the Joint Action makes this conceptual difference, there is really no clear borderline between Category A and B. The programme arrangements are individual to each programme anyway, and a given group of, say, ten participants could be the result of either opting-out or opting-in.

Based on these similarities, it is very instructive to compare the experience from EDA’s first ad hoc programmes with that of NATO described before: The Agency is hosting a considerable and growing number of Category B projects, which are easily established whenever a group of nations decides on a common goal. The fact that these are placed in the EDA framework, although

the Agency has little direct involvement, ensures that they can be part of a wider European effort, and that other nations are informed and have a chance to join if they so wish.

In stark contrast, EDA's first, and so far only, Category A, the Joint Investment Programme on Force Protection, has taken a long time to get established – given its more than moderate size. Instead of consolidating R&T spending at the European level by, as some would have hoped, giving EDA the autonomy to spend this budget on behalf of member states, it has turned into a prime example of micro-management by nations and has resulted in a major administrative and coordination exercise, the cost of which to industry and nations probably exceeds the programme's 54 million euro budget.

Of course, the JIP FP was always intended as a first shot from which lessons for future projects will be drawn. In this sense, if the right lessons are learned and applied, it may still prove a worthwhile investment. However, the conclusion may well be to decide that no further Category A projects should be launched. This would be a bit ironic, but given that EDA members are moving into unknown territory, it may just be the right approach: trial and error.

### **[Conclusions and recommendations]**

If we now look at our NATO and EDA lessons in combination, the main conclusion is the following: When it comes to armaments cooperation, there is no value in including a large number of member states just to establish the illusion of unity. Too often, such inclusiveness will slow down the process so

much that little, if anything, is achieved. This conclusion is not limited to the NATO and EDA examples I have described, but is a recurring pattern in all kinds of fields. Space could be another example, where there are indications that the troubled Galileo programme may be moving forward again, following the declaration by two core nations of their willingness to fund the programme if necessary – and that others may join if they want to.

Of course there are other kinds of activities that are usefully done with the broadest possible participation. I am talking about standardisation, common architectures, basic research or maybe feasibility studies.

For the final technology development and acquisition phases, however, the most sensible approach seems to be to find a small group of likeminded nations, commit to a common goal, and pursue it. In EDA, this means Category B. In NATO it means to us the CNAD and its substructure as the forum for finding cooperation partners, but then to establish a Steering Committee among the participating nations and move responsibility to the working level as quickly as possible. Both approaches, however, should include the chance for others to join according to pre-defined rules (as is the case for EDA Category B projects) and, crucially, still integrating such efforts into the wider framework of European or Transatlantic defence policy.

This is why EDA and NATO will always be needed: As the forum for bringing nations together in variable constellations while still aligning their efforts with an overarching strategy. Because let us not forget: A stronger emphasis on

cooperation within smaller groups could lead to unnecessary duplication again, unless an efficient exchange of information is ensured. This is true for collaborative as well as for purely national programmes (which will always remain). In this context it makes sense that EDA is looking at ways to avoid such duplication, and this should be a core task of the Agency in the future.

Also, in order to maximise the *potential* for Category B-type cooperation, it is necessary to generally align procurement planning, e.g. by harmonising procurement cycles and jointly analysing long-term capability requirements. This again, can be usefully done at EDA level, and we must hope that the new Capability Development Plan that is under preparation at EDA will meet these expectations.

To sum it up: Defence procurement should fit into a coordinated approach, but not everything needs to be done together by all member states. A fully integrated European armaments policy can only follow from, and not precede, a true common defence policy – a state of political integration that will only be reached in the very long term, and maybe never. It is therefore more important than ever that individual nations show the leadership that is necessary to move an issue forward – and form the appropriate coalitions to do so.

And who knows, maybe such an approach will show after a while that there is a core group of nations that consistently shows its willingness to “*proceed more intensively to develop its defence capacities*”, which is of course what the new EU Reform Treaty defines as the prerequisite for launching a

permanent structured cooperation in defence. So the variable geometry of Category B-type cooperation could be a first step to establishing a “core Europe” in defence, thus leading, in the end, to permanent cooperation. However, again, such an agreement will probably be possible only between a limited number of member states.

Wrapping up my presentation, let me go back once again to Javier Solana’s famous quote mentioned at the beginning: “*to spend more, spend better, and spend more together*” and slightly adapt it to derive the following imperatives that, in my view, capture the essence of what we can learn from our recent experience in NATO and the EDA:

1. First, spend better by streamlining national and multilateral decision processes, and identifying the right priorities
2. Second, spend more together, with the right number of partners in the right coalition, but coordinate with those who do not participate
3. Finally, spend more, if and whenever additional resources become available.

For the last point we have to convince the taxpayer to make these resources available, which is of course always difficult.

Spending *better* and spending *more together*, however, are within the reach of the armaments community right now and would – even without additional money – take us a big step forward to giving Europe’s armed forces the capabilities they need.

Ladies and Gentlemen, I would like to thank you very much for your attention,  
and I am ready to take any questions – or to open the coffee break, whatever  
you prefer...