



European Defense's Never-ending Death Spiral

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Although the European Defense Agency (EDA), the European Union's fledgling military arm, hasn't accomplished much in its short three-year lifespan, the one thing it *has* done is highlight Europe's continuing dilemma when it comes to spending enough, and spending wisely enough, on its defense capabilities.

Criticisms of Europe's failure to dedicate sufficient resources to defense – and to spend these monies efficiently – are not new. Moreover, we have long been aware of the huge disparity in U.S.-versus-European expenditures on defense. Now, however, the EDA, in a series of quietly released reports on EU military spending, has provided us with a set of quantitative data that adds further fuel to the fire over Europe's inadequate efforts to arm itself for 21st century military operations.

The details are depressing:

- According to the EDA, the EU member-states spent a total of €193 billion (US\$255 billion) on defense in 2005, about 1.8 percent of the European Union's total GDP and less than four percent of all government expenditures by EU member-states. This is equal to roughly half of what the United States spent on defense that year, including supplementals for operations in Iraq and Afghanistan.
- The EU, as a whole, in 2005 spent €26.4 billion (US\$35b) on procurement, and €9 billion (US\$11.8b) on research and development (R&D). In comparison, U.S. military expenditures for 2005 included approximately US\$103 billion for procurement and US\$71 billion for R&D. In other words, Washington spent nearly *three* times as much on equipment as the EU combined, and more than *six* times as much on R&D alone.
- The transatlantic gap in defense expenditures is, if anything, widening. In 1999, the ratio of U.S. to European spending on military R&D was 4:1, while the gap in procurement spending used to be two to one.
- In addition, the share of the US defense budget going to procurement and R&D is nearly twice as big as Europe's: 32 percent of all military expenditures versus 18.4 percent for the EU combined. And just four countries – Britain, France, Germany, and Italy – accounted for two-thirds of all equipment spending and over 90 percent of all R&D spending.

European defense spending has been stagnant for years, and what spending there is tends to spread thinly across a highly fragmented and zealously protected European arms market. The EDA, for example, reports that estimated military expenditures in 2006 by EU member-states

will be €192 billion, a 0.6 percent drop from the year before.

According to NATO statistics, between 2000 and 2006 real military expenditures have fallen in Germany and Italy, while they have risen around five percent in France and six percent in the United Kingdom. In comparison, U.S. defense spending has grown by more than 40 percent (*not* including supplemental spending for Afghanistan and Iraq).

The answer to the problem of declining defense spending, one would think, would be to pool these scarce defense euros among EU member-states in order to make R&D, manufacturing, and acquisition more efficient and cost-effective. And yet, according to the EDA, in 2005 only 18 percent of all EU procurement – €4.75 billion, or US\$6.2 billion – was collaborative, i.e., performed with other countries, and only one-eighth – €73 million – of all research and technology spending (R&T, that is, for basic and applied research) was multinational. That year, only one-fifth of French, 23 percent of Italian, and 12.5 percent of British procurement was dedicated to collaborative programs.

Overall, after more than twenty years of talking about the relative decline in European defense, there is still too little spending within the EU on defense, and what spending there is, is still being done too inefficiently. Moreover, there has been little progress when it comes to the rationalization of European defense procurement and of the European defense industry in general.

Clearly, “economic patriotism” – to use a French term to describe national preferences when it comes to defense procurement – is still alive and well within the EU. Most procurement and military R&D spending within the EU is still concentrated in redundant and often competing national programs, further eroding the overall buying power of European equipment budgets. The European arms market is currently beset with a number of duplicative and competing programs, such as three fighter aircraft (Rafale, Eurofighter, and Gripen), two heavy-lift utility helicopters (the EH-101 and the NH-90), at least three air-defense surface combatants (the Franco-Italian Horizon and the Spanish F-100 frigates, and the British Type-45 destroyer), and countless armored vehicles. Where there is collaboration, there is too much emphasis on *ad hoc* cooperative programs that do little to make the outlay of scarce defense euros more cost-effective.

Moreover, despite the emergence of such global champions as the European Aeronautic, Defense and Space Company (EADS), Thales, and BAE Systems, the European defense industry still suffers from excess competition and overcapacity. There has been little new transnational consolidation in the European defense industry in recent years, and efforts to make manufacturing in the European defense sector more efficient have met with stiff opposition. Meanwhile, BAE Systems is actually jettisoning some of its holdings on the continent, in favor of investing more in North America, where the money is.

So what does it all mean? Basically, there are two dangers to Europe. The first is that the European military is becoming increasingly impotent and irrelevant, because it is failing to spend what few defense euros it has on acquiring the capabilities for 21st century warfare. The EU, both separate member-states and as a whole, is simply not investing enough funds in those areas that will transform Europe’s armed forces, particularly those systems for network-centric warfare, conventional precision-strike, and sustained power projection. Instead, there is still too much emphasis on large, job-creating Cold War legacy programs, such as fighter aircraft, blue-water warships, or strategic nuclear forces – systems that, arguably, would be ill-suited for the kinds of counter-insurgency, counter-terrorist, and peacekeeping operations that are more likely to occur in the first half of this century.

Meanwhile, the gap with the United States in expeditionary warfare is widening, and it should come as little surprise that the armed forces within the EU can deploy only four percent of its troops outside Europe, versus 16 percent for the United States. And the EU's goal, agreed to in 1999, of deploying 60,000 troops overseas and sustaining them for up to a year, remains an elusive quest.

Secondly, the European defense industry risks become a "mercenary" business. The European defense sector still manufactures a lot of sophisticated military equipment, but it is becoming so increasingly export-dependent that it is producing less to meet the future defense needs of Europe than for the sake of jobs and profits. Consequently, it is increasingly selling off the cream of European military technology, perhaps even to adversaries of the United States, such as China. It would do no one any good for Europe to become a serial proliferator of arms, but this could easily be an unintended consequence of Europe's failure to deal with its continuing defense death-spiral.

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