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Shaping Transatlantic Security

The EU's Drive for a Stronger Defense Industry

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Shaping Transatlantic Security: The EU's Drive for a Stronger Defense Industry

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On March 05, 2024, the European Commission unveiled its first-ever <u>European Defense</u> <u>Industry Strategy</u> (EDIS). This announcement comes at an unprecedented moment in history:

- In Ukraine, the situation remains a dire tactical stalemate, while belligerent Russia seems more threatening than ever to the European bloc.
- In the US, despite the efforts of the Biden administration, aid to Ukraine stalled for months and remains a contentious issue in Congress¹.
- Across Europe, EU Member States are trying to fill the gap in aid, but are struggling to supply Ukraine with the defense systems it urgently needs.²
- On February 10, at a rally in South Carolina, former President and presidential candidate Donald Trump cast doubt on whether he would defend or surrender to Russia any European country that would fail to achieve NATO's 2%-of-GDP target for defense spending.³

Europe must move from rhetoric to action to build stronger EU military capabilities. This paper examines this first step of EDIS through a transatlantic lens.

- The EDIS is the EU's latest addition to its developing defense strategy. Focusing on the European Defense Industrial Base, it aims at investing "more, better, together, and European".
- Reinforcing Europe's military posture is critically needed in the long term to rebalance transatlantic defense. This will also allow both the EU and the US to face emerging threats in a concerted way, especially in a context where America's strategic focus moves eastward toward the Indo-Pacific Region.
- *EU defense must be coordinated with NATO efforts.* If properly devised, a stronger European Defense will not diminish transatlantic defense: it will strengthen it.

¹Lopez, German. "America Pulls Back from Ukraine." *The New York Times*, 14 Mar. 2024, www.nytimes.com/2024/03/14/briefing/ukraine-us-aid.html.

² Missy, Ryan. "With U.S. Aid in Doubt, Europe Struggles to Rearm Ukraine." Washington Post, 24 Feb. 2024, www.washingtonpost.com/national-security/2024/02/24/europe-ukraine-ammunition-shells/.

³ Mackinnon, Amy and Detsch, Jack. "Trump's NATO Bashing Confirms Europe's Worst Fears." *Foreign Policy*, 14 Mar. 2024, <u>foreignpolicy.com/2024/02/12/trump-nato-comments-europe-2024/</u>.

The European Defense Industry Strategy (EDIS)

The EDIS is the EU's latest addition to its developing defense strategy. It builds upon a broader EU defense policy initiative: the <u>Strategic Compass</u> in 2022 which was the EU's landmark defense roadmap to make the European bloc, "a stronger and more capable security provider." EDIS focuses on enhancing the readiness of the EU defense industry through the so-called European Defence Industry Programme (EDIP).

A Necessary Focus on Industry

While the bloc's treaties greatly limit the scope of action of the European Commission when it comes to defense, European institutions can still address defense through the avenues of industrial policy. The conflict in Ukraine exposes the EU's incapacity to rapidly provide Ukraine with the defense systems it urgently needs.

Ensuring that the European defense industry can provide EU armies with the defense equipment they need, timely enough and on a sufficient scale, is a prerequisite for the EU to become a capable security actor. This prerequisite, however, is not currently satisfied.

In the wake of Russia's invasion of Ukraine, European defense production capabilities were insufficient: while the EU's Act in Support of Ammunition Production (ASAP) was supposed to ensure Europe met its bold commitment in 2023 to deliver one million rounds of ammunition within a year to Ukraine, it appears that the EU's defense base won't deliver. One year after the initial promise of the EU High Representative for Foreign Affairs and Security Policy Josep Borrell, in March 2023, the EU will only be able to deliver half a million rounds of ammunition by March 2024.

This is principally due to Europe's underinvestment in its defense industry for decades.⁵ Further, the fragmentation of defense procurement strategies across Member States has led to a growing reliance on non-EU defense suppliers. 78% of defense systems purchased by the EU between June 2022 and June 2023 were procured from outside the EU, out of which 80% from the US, 13% from South Korea, 3% from the UK and Israel.⁶ Finally, in spite of EU military spending reaching a record high (\$295 billion) in 2023⁷, the EU is undermined by capability gaps on critical enablers⁸, including C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance).

⁴ Besch, Sophia. "Understanding the EU's New Defense Industrial Strategy." *Carnegie Endowment for International Peace*, 8 Mar. 2024, carnegieendowment.org/2024/03/08/understanding-eu-s-new-defense-industrial-strategy-pub-91937.

⁵ European Commission. "Joint Communication to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions on the Defence Investments Gaps and Way forward." eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52022]C0024

⁶ European Commission. "Towards a European Defence Industrial Strategy: Investing Better and Together in Defence Capabilities and Innovative Technologies." *Issue Paper* #2, 2023, defence-industry-space.ec.europa.eu/system/files/2023-12/EDIS%20Issues%20paper%202.pdf.

⁷ European Council. "A European Defence for our Geopolitical Union: speech by President Charles Michel at the EDA annual conference". *European Council*, 20 Nov. 2023, https://www.consilium.europa.eu/en/press/press-releases/2023/11/30/a-european-defence-for-our-geopolitical-union-speech-by-president-charles-michel-at-the-eda-annual-conference/

⁸ Jones, Seth G., Rachel Ellehuus, and Colin Wall, Europe's High-End Military Challenges: The Future of European Capabilities and Missions, Rowman & Littlefield, Lanham, Maryland, 2021.

This is what the EDIS aims to tackle: going beyond short-term emergency measures (such as the ASAP) and building enduring military capabilities.

The EU's Answer: A New Defense Industry Strategy

To strengthen its posture, the EU wants to "invest more, better, together, and European." In practice, EDIS is a multidimensional initiative. The principal measures are enhanced coordination, new legal frameworks, new practical mechanisms, and increased funding – as outlined in the graphic below. These goals are designed to enable Member States to purchase at least 40% of defense equipment in a collaborative manner by 2030 and aim at boosting defense innovation while expanding production capacities.



Enhanced Coordination

- The newly-created Defence Industrial Readiness Board will serve as an EU-wide coordination instrument for common programming and procurement.
- It brings together Member States, the High Representative/Head of the European Defence Agency and the Commission.



New legal frameworks and vehicles enabling a stronger cooperation between EU Member States on defense equipment

- Creation of the Structure for European Armament Programme, with dedicated EU funding, harmonized joint procurement rules and VAT waivers
- Creation of European Defense Projects of Common Interest, eligible for EU financial support



New practical mechanisms to sell and buy defense systems

- Pilot European Military Sales Mechanism
- Increases the visibility on available European defense systems (centralized, up to date catalog of EU-made defense products)
- Facilitates 'government to government' purchases



Increased Funding

- Initial budget of €1.5 billion over the period 2025-2027, before next EU's long-term budget (2028-2034) which will likely dedicate an ambitious envelope to defense
- Includes: EU grants to incentivize Member States cooperation on common procurement, EU grants to de-risk investment in the production of European defense systems, EU grants to foster innovation and support startups

Figure 1. Summary of the EDIS by the author.

⁹ European Commission. "First ever defence industrial strategy and a new defence industry programme to enhance Europe's readiness and security". *European Commission*, 5 Mar. 2024, https://ec.europa.eu/commission/presscorner/detail/en/ip_24_1321

Next Steps for EDIS

EDIS is a non-binding document and moving from rhetoric to action is urgently needed. Multiple adverse factors might compound and slow down the progress of the European Defense Industry Strategy. Two key barriers stand out:

- Building a stronger European Defense will take much more than €1.5 Billion. The meager figure pales in comparison with recent declarations by Commissioner for Internal Market, Thierry Breton, who called for the creation of a €100 billion defense fund.¹⁰ The reality is European governments are cash-strapped, and are already spending a majority of their budgets on education, welfare, and healthcare. Among potential fixes, EDIS mentions changing the lending policy of the European Investment Bank (EIB) to allow the latter to fund defense-related projects (EIB is not authorized to finance military projects as of today). Member States have also floated the idea of issuing Eurobonds to finance defense expenditures, just as they did recently to finance the post-covid recovery measures.¹¹
- Defense remains a national competence. While centralized decision-making at the EU level can generate economies of scale, national capitals are often reluctant to give away their sovereignty to EU institutions when it comes to defense, to retain control and freedom of action. This is what Hugo Meijer and Stephen G. Brooks called the European "strategic cacophony" issue, a "profound, continent-wide divergence across all the domains of national defense policies, most notably threat perceptions" rendering coordination on military topics difficult.

If not addressed, those two hurdles may result in EDIS ambitions being unfulfilled, at a time when reinforcing European capacities is vital.

¹⁰ Wax, Eddy, and Laura Kayali. "Breton Aims for 'huge' €100B Defense Fund." *POLITICO*, POLITICO, 9 Jan. 2024, www.politico.eu/article/thierry-breton-edip-sending-1-million-shells-to-ukraine/.

¹¹ Foy, Henry, et al. "Emmanuel Macron to Revive Demands for European Defence Bonds." Financial Times, 21 Mar. 2024, www.ft.com/content/451d935e-b3ef-4d3c-8dcf-24f86338647a.

¹² Meijer, Hugo, and Stephen G. Brooks. "Illusions of Autonomy: Why Europe Cannot Provide for Its Security If the United States Pulls Back." *International Security*, vol. 45, no. 4, 2021, pp. 7–43, https://doi.org/10.1162/isec_a_00405.

EU's Vital Role in Transatlantic Defense

The EU's current endeavor to strengthen its military posture is coming after decades of heavy reliance on the US security umbrella. Building stronger EU military capabilities will take time. From a Euro-Atlantic perspective, reinforcing Europe's military posture is critically needed in the long term, and will not diminish transatlantic defense but instead strengthen it.

A Necessary Step to Rebalance the Transatlantic Defense

Regardless of the results of the next U.S. presidential election, reinforcing Europe's military posture is needed to rebalance American and European defense burden sharing, especially given the US' increasing emphasis on the Indo-Pacific.

The implications of a stronger European Defense go beyond a mere attempt of Trump-proofing: it is about shouldering a fair share of the transatlantic security. The very possibility of Trump moving back to the White House is worrying European capitals, especially after his recent declarations on NATO.¹³

But the prospect of Trump's election is but a symptom of a structural predicament: the U.S. is paying the lion's share of the defense of the European continent. Even if Trump was not elected in November 2024, a more robust European Defense will make EU-US discussions healthier, while ensuring the long-term sustainability of the transatlantic defense through fair burden-sharing. A stronger European Defense will re-equilibrate a historically imbalanced relationship, which - if left as is - will continue to generate mutual frustrations on both sides.

Furthermore, greater EU ownership in reinforcing Europe's military posture is necessary as America's strategic focus shifts to the Indo-Pacific Region. For the EU, this progressive shift in US foreign and security policy will mean that it will need to develop stronger defense capabilities on its own continent, to maintain deterrence of any further aggression from Russia. For the US, a stronger European Defense will make it easier to continue to ensure conflict deterrence through the alliance¹⁵, while moving its emphasis to the Indo-Pacific Region.

¹³ Mackinnon, Amy, and Jack Detsch. "Trump's NATO Bashing Confirms Europe's Worst Fears." *Foreign Policy*, 16 Feb. 2024, foreignpolicy.com/2024/02/12/trump-nato-comments-europe-2024.

⁴ Bergmann, Max, et al. "The European Union Charts Its Own Path for European Rearmament." *Center for Strategic and International Studies*, 8 Mar. 2024, www.csis.org/analysis/european-union-charts-its-own-path-european-rearmament.

Bergmann, Max, and Otto Svendsen. *Transforming European Defense: A New Focus on Integration*. 24 Jan. 2024, https://www.csis.org/analysis/transforming-european-defense-new-focus-integration.

EU-NATO Cooperation

Stronger European defense will not weaken Transatlantic defense: it will strengthen it, and require more EU-NATO cooperation.

Both the EU's Strategic Compass and the recent EDIS recognize NATO as the foundation of European Defense. EDIS states, "A stronger and more capable EU in security and defence will contribute to global and transatlantic security and is complementary to NATO, which remains the foundation of collective defence for its members." In the latest Joint Declaration on EU-NATO Cooperation, allies stated the same, "We recognise the value of a stronger and more capable European defence that contributes positively to global and transatlantic security and is complementary to, and interoperable with NATO."

Beyond words, paying attention to the coordination with NATO will be key, to avoid the historical Euro-Atlantic Security Dilemma, theorized by Jolyon Howowrth: the fear that (i) if Europe builds stronger military capabilities, the US will be tempted to reduce its military presence in the EU, while (ii) if Europe does not build enough military capabilities, the US will not take the EU seriously. 17

As a thought starter, history provides an interesting framework to analyze the need for coordination. In 1998¹⁸, while the EU was mulling over its defense strategy, then-US Secretary of State Madeleine Albright had supported the EU's first attempts to reinforce European military preparedness while also cautioning against the, "three D's": delinking European Defense and NATO, duplication of efforts, and discrimination against non-EU countries.

"We want a Europe with modern, flexible military forces that are capable of putting out fires in Europe's backyard and working with us through the alliance to defend our common interests. European efforts to do more for Europe's own defence make it easier, not harder, for us to remain engaged. [...] As Europeans look at the best way to organise their foreign and security policy cooperation, the key is to make sure that any institutional change is consistent with basic principles that have served the Atlantic partnership well for 50 years. This means avoiding what I would call the Three Ds: decoupling, duplication, and discrimination." Madeleine Albright

Ensuring this coordination will require more EU-NATO cooperation and joint defense planning, not less, while also reinforcing NATO.

¹⁶ NATO. "Joint Declaration on EU-NATO Cooperation by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization." *NATO*, www.nato.int/cps/en/natohq/official texts 210549.htm.

¹⁷ Howorth, Jolyon. "The euro-atlantic security dilemma: France, Britain, and the ESDP." *Journal of Transatlantic Studies*, vol. 3, no. 1, Mar. 2005, pp. 39–54, https://doi.org/10.1080/14794010508656816.

¹⁸ "Joint Declaration on European Defence." *Joint Declaration Issued at the British–French Summit*, Foreign and Commonwealth Office of the United Kingdom, 4 Dec. 1998. *Joint Declaration on European Defence. Joint Declaration issued at the British–French Summit*, *Saint–Malo*, 3–4 *December* 1998, www.cvce.eu/content/publication/2008/3/31/f3cd16fb–fc37–4d52–936f–c8e9bc80f24f/publishable_en.pdf.

¹⁹ Madeleine K. Albright. "Statement to the North Atlantic Council. Brussels". Belgium, December 8, 1998. 1997–2001.state.gov/statements/1998/981208.html.



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