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**Cooperation in European defence procurement: OCCAR  
and the security regime**

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**By  
Michela Ceccorulli  
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**The dissertation of Michela Ceccorulli is approved.**

Programme Coordinator: Professor Victor Zaslavsky, LUISS Rome

Supervisor(s): Minister Plenipotentiary Maurizio Enrico Serra

Tutor: Minister Plenipotentiary Maurizio Enrico Serra

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# Acronyms

<b>AMSL</b>	Airbus Military Sociedad Limitada
<b>BoS</b>	Board of Supervisors
<b>BPFA</b>	Bureau des Programmes Franco-Allemands
<b>BTB</b>	Bureau Technique des Programmes
<b>CO</b>	Central Office
<b>COPS</b>	Comité de Politique et de Sécurité
<b>DFHB</b>	Deutsch- Französisch Helicopter Büro
<b>DGA</b>	Délégation Générale d'Armement
<b>EA</b>	Executive Administration
<b>ECAP</b>	European Capabilities Action Plan
<b>EDA</b>	European Defence Agency
<b>EDITB</b>	European Defence Industrial and Technology Base
<b>ESR</b>	European Staff Requirement
<b>EU</b>	European Union
<b>FLA</b>	Future Large Aircraft
<b>FRES</b>	Future Rapid Effect System
<b>FTPC</b>	Future Task and Policy Committee
<b>GIAT</b>	Groupement Industriel des Armements Terrestres
<b>ISS</b>	In-Service Support
<b>LoI</b>	Letter of Intent Framework Agreement
<b>MoD</b>	Ministry of Defence
<b>MoU</b>	Memorandum of Understanding
<b>NAHEMA</b>	NATO Helicopter Development and Design, Logistic Management Agency
<b>NAMSA</b>	NATO Maintenance and Supply Agency
<b>NATO</b>	North Atlantic Treaty Organization
<b>OMP's</b>	OCCAR Management Procedures
<b>PB</b>	Programme Board
<b>PC</b>	Programme Committee
<b>PD</b>	Programme Division
<b>RAF</b>	Royal Air Force
<b>RFP</b>	Request for Proposal

**TDP**      Technology Demonstrator Programme  
**WEAG**    Western European Armament Group  
**WEU**      Western European Union

# Programmes

<b>A400M</b>	Tactic and Strategic Airlifter
<b>BOXER</b>	Multi-Role Armoured Vehicle
<b>COBRA</b>	Weapon Locating System
<b>FREMM</b>	Fregate Europee Multi-Missione
<b>FSAF</b>	Next Generation of Surface-to-Air Anti-Missile Systems plus
<b>PAAMS</b>	Munitions
<b>TIGER</b>	New Generation of Helicopters

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# VITA

- October 3, 1980    Born, Fano (PU), Italy
- 2004                Degree in International and Diplomatic Science  
Final marks: 110/110 *cum laude*  
Università di Bologna, Forlì, Bologna, Italy  
Relator: Professor Marco Cesa
- 2004-2005         Altiero Spinelli's Fellowship, Compagnia di San  
Paolo, Torino  
Diploma in International Studies  
SAIS- Paul Nitze School of Advanced  
International Studies  
Johns Hopkins University, Bologna Center, Italy
- 2005-2006         Teaching Assistant  
International Relations Department  
University of Bologna, Forlì
- 2004-2007         Master of Arts in International Relations and  
International Economics  
SAIS- Paul Nitze School of Advanced  
International Studies  
Johns Hopkins University, Washington DC, USA
- 2006-                Collaboration with the Forum on the Problems of  
the Peace and War  
Florence

## PUBLICATIONS AND PRESENTATIONS

M. Ceccorulli (2007) *Italy's Uncertain Path towards a European Defence, Foreign Policy Newsletter*, Italian Foreign Policy, University of Bologna [foreignpolicy.it/file\\_adon/ceccorulli.doc](http://foreignpolicy.it/file_adon/ceccorulli.doc)

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# Abstract

The aim of this research is to analyse the regime on defence procurement together with the dynamics and the shape of coordination achieved among European states.

Defence procurement regards the acquisition and management of military programmes by governments or *ad hoc* agencies. Weapons procurement has historically been a domain of national states. Its apparent linkage with security affairs has hampered or rendered difficult cooperation among states. Nevertheless, pressured by internal and external factors, European countries are partly reconsidering their procurement policies. The last decade of the 20<sup>th</sup> century has been characterized by significant turning points that have increased states' willingness to coordinate their actions.

In the first part of the research the nature of the regime is discussed: coordination in weapons procurement among European states reflects a security regime. Then, a depiction of the difficulties and challenges that a security regime presents is provided, deriving mainly from the available literature on this realm. Having defined the nature of the regime, the research highlights the basis for cooperation by considering the theoretical approaches that seem more likely to explain it: power based theories. In the second part of the research the findings emphasized in the theoretical part are employed to analyse the regime on defence procurement. Evidence of the features composing the regime and explanations of the difficulties of formalizing it and rendering it binding for all European states are made available.

It is emphasized that while there exists a willingness to coordinate actions among states, tangible results have been achieved outside of the EU context and between the most powerful European states, mainly through OCCAR (*Organization Conjointe de Coopération en Matière d'Armement*). OCCAR, an International Organization for the joint management of European military programmes, does not constitute the regime itself, but contributes to its existence in a significant way. The degree and the shape of coordination reached within this organization amid 'distributional' issues provides informed insights for future cooperative efforts.

# Introduction

The aim of this research will be to discuss the regime on defence procurement within the European context. The existence of a regime mirrors a pattern of cooperation among states and therefore this work will attempt at motivating states' willingness to cooperate and the likely shape cooperation will take.

Defence procurement concerns the acquisition and management of weapon systems by national states or by agencies appositely created for that purpose. Always considered as a matter of national concern, defence procurement has progressively shifted toward a problem of collective action: given industrial, economic and strategic pressures states are searching for forms of coordination among themselves. State-of-the-art degree of cooperation within the European landscape should therefore inform about the features a cooperation in this subject matter does present as well as the challenges encountered and possibly hampering a thorough coordination path among states.

The first two chapters of the research will be mainly theoretical so as to provide intellectual tools for the analysis of the second and more empirical part and to contribute to fill a poor International Relations literature treatment of the matter. The second part will analyse coordination paths taking place within the European scenario, showing and validating the findings summed up in the theoretical part. Also, the empirical part should report to the reader about the challenges likely to come about in cooperative settings characterized by security matters, so as to encourage realistic and reasoned cooperation proposals.

In order to analyse cooperation on defence procurement it is paramount to provide and operationalize some concepts that will be used through the research: the first chapter will therefore specify what has traditionally been intended with 'regime' and what with 'security'. It will show that three schools of thought have dealt with 'regimes' and have tried to provide their own assessment about the likelihood of

cooperation and the effectiveness and impact of regimes on state' actions. In particular, regimes have been mainly studied under the paradigm of the functionalist school of thought, eager to depict cooperation challenges in international affairs as Prisoner's Dilemma situations, stressing therefore how 'cheating' and the lack of sound and appropriate information did impinge on cooperative endeavours. It will be argued, though, that cooperation problems can assume different shapes according to the context of the game at play. Coordination games, for example are particularly relevant for the subject of our interest: not only they highlight the collective action challenge existing among actors but also underline the shape of the cooperative bargain, giving a peculiar role in this sense to power.

The other concept chapter one focuses on is 'security', as it will be assumed that the defence procurement will characterize a security regime. Security today does not remind only to the mere survival of a nation state but to the pursuit and protection of other paramount interests: this paves the way for a more promising approach to the study of cooperative arrangements on security issues out of pure alliance dynamics. In fact, defence procurement will be considered as a security regime, exhibiting all the challenges this issue area is likely to bring about added and combined with those to be faced in a coordination game posing 'distributional' concerns.

After having clarified the theoretical concepts to be employed in the empirical part chapter two will become familiar with defence procurement meaning and practices, specifying the reasons why it was considered as a paramount 'national' affair and clarifying how defence economics may impinge on a state' s security. Defence procurement regards not only the acquisition of a weapon system, but also all the phases of its life-cycle: this will remark the arduous bargaining game likely to arise and the differences existing between a traditional market and a defence one. As previous cooperative experiences show, cooperation did mainly exclude competition: it was instead a strategy to boost the national industry and achieve strategic aims. Past cooperative experiences do highlight the limits but also the potentialities of defence cooperative endeavours.

The remainder of chapter two will be dedicated to the presentation of economic, industrial and strategic pressures strongly pushing states towards cooperative arrangements: unilateral actions (procuring alone the weapons needed) are neither rewarding nor efficient even if states can potentially decide to pursue this path: this mainly happens when they are not of the same opinion about a specific arrangements agreed



upon. It goes without saying that the more powerful a state the more likely it is to influence a particular compromise or achieve better returns by threatening defection.

At this point of the research the defence procurement regime will be analysed in its actual and real shape. This should ask for the identification of principles, norms, rules and decision-making procedures within the European context suggesting the existence of a patterned cooperation among states, and eventually evaluate the impact these have on states' actions. This preliminary analysis will highlight the existence of a double track on defence procurement, within and outside of the European institutional framework: within it the European Defence Agency deserves a particular attention because of its broad partnership and its attempt at favouring a thorough European defence stance. Outside of the European context OCCAR (*Organization Conjointe de Coopération en Matière d'Armement*) emerges as the highest accomplishment in defence procurement cooperation albeit with a small and powerful membership (as for defence capabilities) and an inter-governmental approach. Therefore, the entire fourth chapter will be dedicated to the analysis of this organization, searching to envision the reasons of its success and underlining the ever-persisting limitations on cooperation in defence matters.

The fear of loosing political control over a programme, of loosing jobs and of loosing relative competitiveness are among the most common concerns that did hamper institutionalized and enduring structures for the acquisition and management of weapon systems: from this point of view OCCAR scores a relevant goal in fostering a more lasting cooperation among states. Created by the most important defence producers and consumers within the European landscape (France, Germany, the United Kingdom and Italy), OCCAR is managing some fundamental European programmes. Notwithstanding huge 'distributional issues' that did delay and put in danger cooperative arrangements, it is fair to assume that without OCCAR the management of those programmes would have been difficult if not impossible. The analysis of the A400M military transport aircraft will show how the willingness of some European states to cooperate met with an agency able to bring about concrete results amid strong national pressures.

Thus, cooperation on defence procurement will be analysed in all its facets: as an achievement, if compared to past cooperative efforts and as a stumbling block, plagued by 'distributional issues'.



# Chapter 1

## The regime on defence procurement: theoretical background

### 1.1 Introduction

The aim of this theoretical part of the research is that of providing a basic understanding of the subject-matter we are dealing with. Defence procurement regards the acquisition and management of defence systems: what is at stake is the production of military and destructive means that no doubt suggests the security nature of the issue at hands, albeit with some important economic features. Because of the issue-area it would not be ordinary to observe states' willingness to cooperate aside from traditional alliances dynamics against a well-defined enemy. Instead, what is worth noticing today are various attempts by European states to coordinate their actions so as to jointly manage defence procurement and progressively standardize their national procurement practices. This is particularly determined by economic, industrial and strategic pressures and incentives that all European states experience. These attempts at cooperation without a clear-cut threat on the forefront seem to suggest the existence of a regime, conceived this latter as a form of coordination and accommodation among actors. If this is true the first step of the research on defence procurement should be to present and clarify the theoretical tools that will be employed during the work.

Assessing the existence of a regime on defence procurement is subject to two preliminary and consequential steps: defining what a regime is for different International Relations schools of thought and choosing a theoretical approach that seems to fit the research purposes. The first section will therefore highlight the way in which different schools of thought have approached the 'regime' debate, so as to underline the questions they do focus on when explaining cooperation, their

interpretation of regimes with regard to states' interests, preferences and social environment, their evaluation of the impact regimes do have on states' actions and relationships. The theoretical approaches that will be considered in the research are the 'rationalist' ones as they seem keener to answer the question 'why do states cooperate on defence procurement'. The cognitivist approach, that will not be considered in the remainder of the research, will be broadly discussed and the reasons of its weakness for our subject matter explained.

As for the rationalist schools of thought, encompassing two substantially different theories, it will be shown how the hegemonic stability theory first and the functionalist theory afterwards have dominated the regime literature sometimes overlooking other relevant insights. In particular, the functionalist approach to regimes has conceived the Prisoner's dilemma as the best game representing cooperation challenges in international affairs and has derived from it recipes for cooperation. What will be stressed, though, is that international affairs produce multiple cooperation challenges according mainly to the context, the structural situation in which actors find themselves to play: this consideration will inevitably shed a new light on cooperation dynamics and perspectives.

After having introduced the theoretical debate about regimes the following step will be to narrow the scope of the analysis and focus on security regimes, which interest us the most. It will be argued that poor studies have been conducted on security regimes because few of them did ever appear: the security dilemma on the forefront has opened opportunities for cooperation only on some particular occasions such as in the Concert of Europe or in the Nuclear Non-Proliferation regime. If security issues have been studied most of the time as zero-sum gains situations some scholars recognize that security does not overlap with military force, but instead comprises the protection of much more encompassing interests. For these reasons the security dilemma is mitigated on some situations and hope for cooperation does arise even if concerns about relative gains and distributional issues still persist.

It will be shown, then, that notwithstanding its security nature, cooperation on defence procurement does not mirror a security dilemma scenario but rather an attempt at coordinating states' actions acknowledging the sub-optimality of a going-it-alone strategy. This is the first reason why states do coordinate on defence procurement. If coordination is deemed paramount states would then struggle to make their preferred outcome count, and therefore a 'distributional' conflict is likely to come about. The achievement of a particular coordination

point is utmost for states: in the section dedicated to the relative gains concerns emphasis will be put on the impact of cooperation on the position of states and the relevance this latter achieves for the pursuit of significant interests. A valuable way to assess the impact and relevance of a regime would be to question whether states are able to achieve the same objectives obtainable through it with other tools or other strategies: the last two sections search to demonstrate how cooperation can be one but useful strategy adoptable by states in order to achieve their interests and conserve their position within the system. If it is true that powerful actors are able to guide and influence the distributional process within a regime it is likely that the final coordination point will be a 'compromise' solution among different options, especially if, as in the case of defence procurement, the actors bargaining for their preferred positions share similar structural capabilities and if coordination is that compelling to force conciliation.

## 1.2 International regimes: sociological vs. rationalist approach

'International regimes' as a topic of International Relations has caught a broad academic interest during the middle '80s and '90s. Partly, this was determined by the presence of forms of 'durable collaborations' between states that invited scholars of different schools of thought to offer explanations of these phenomena.<sup>1</sup> Moreover, in those years, a great contribute to the literature about regimes was provided by a book, edited by Stephen Krasner, "*International Regimes*",<sup>2</sup> aimed at starting a fruitful debate about regimes, their meaning, their scope, and the likelihood of their creation, durability and demise. Within the book was an article written by Robert Keohane, "*The Demand for International Regimes*", that became afterwards the base of the most important volume about regimes, *After Hegemony*,<sup>3</sup> a book that has fostered huge attention and criticisms, both from the realist school and the cognitivist one.

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<sup>1</sup> Among the most studied regimes were those build around the GATT, OPEC and the international regime on Nuclear Proliferation.

<sup>2</sup> Stephen D. Krasner, ed., *International Regimes*, Cornell University Press, London, 1983.

<sup>3</sup> Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton University Press, 1984.

From the '80s, regimes have proliferated and their relevance has somehow been highlighted by the demise of the Cold War, in which cooperation between states was explained as another form of confrontation between the poles. Nevertheless, poor studies have been conducted on regimes and all the schools of thought who did pay attention to these cooperation phenomena have hampered a thorough and productive analysis of them by remaining too entrenched to their own paradigms and assumptions. Also, part of the explanation of the lack of substantial researches can result from the consideration that the broadness of 'regimes' as a concept and the disagreement about their meaning has rendered them an hard topic to handle. The following section will therefore take into consideration the insights provided by various schools of thought and will highlight their limits as well as their linchpins in dealing with regimes.

The generally cited definition of regimes is the one provided by Stephen Krasner in his book; namely regimes are "implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given issue area of international relations".<sup>4</sup> In particular it can be said that principles state the basic beliefs upon which a regime is formed, norms should direct the behaviour of the regime partners in a way consistent with the principles, rules convert the norms in prescriptions or proscriptions and finally a bunch of procedures are provided to help organizing collective decision-making between states. From the very beginning of its formulation this kind of definition has brought about a huge debate between pundits. As correctly Strange points out, the concept of regimes is misleading,<sup>5</sup> and the main reason is that, because different schools of thought have different beliefs about the formation, the emergence and the function of principles and norms they have also different assessments about regimes.

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<sup>4</sup> Principles are beliefs of fact, causation and rectitude. Norms are standards of behaviour defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for actions. Decision-making procedures are prevailing practices for making and implementing collective actions. See, Stephen Krasner, 1983, p. 2.

<sup>5</sup> Susan Strange finds that 'regime' is a misleading concept that obscures basic economic and power relationships. Her contribute to Krasner's book is in fact very critical and stands apart from other more purposeful contributes. See Susan Strange, "Cave! Hic Dragones: a Critique of Regime Analysis", in Stephen D. Krasner ed., 1983, pp. 337-355.

From the debate around regimes three main approaches have emerged: a cognitivist, a realist and a neo-institutionalist one. While the realist school and the neo-institutionalist one interpret the definition of regimes mostly in the same way, the cognitivist school confers to their definition a particular meaning. Below cognitivists' conception of regimes will be investigated: notwithstanding its positive contribution to the literature it will be clarified why this research will not base its assumptions on this approach.

### 1.2.1 The Sociological approach

First of all it is necessary to underline that there is not a unanimous consensus on whether it is possible to speak about a "theory" in the sense in which we refer to the realist or the neo-istitutionalist ones. If some scholars from the cognitivist strand oppose strongly the fundamentals of the traditional theories less fruitful has been the attempt at formulating a well consistent approach and providing it with solid empirical tests. Part of the reason is of course that the 'sociological' approach undertaken difficultly matches with the attempt at operationalizing concepts or observing and measuring events. Within the cognitive landscape a differentiation must be made among the scholars who retain that the traditional or rationalist approach is incomplete and those who retain that the basic underpinnings of this latter are flawed.

According to utilitarian theories (realist and neo-istitutionalist) states are able to individuate and adopt the soundest strategy to maximize their utility: states are therefore rational goal seeking. Thus, cooperation is interpreted as one of the available strategy to solve collective actions problem that would impede the achievement of a likely interest. Preferences, for these approaches, are taken as given and enter the cooperative game meeting those of the other states. 'Weak' cognitivists argue that rather than given, actors' interests are moulded by states' interpretation of the world: "before states can agree on whether and how to deal collectively with a specific problem, they must reach some consensus about the nature and the scope of the problem and also about the manner in which the problem relates to other concerns in the same and additional issue-areas".<sup>6</sup> Hence, weak

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<sup>6</sup> Peter Haas, cited in Andreas Hasenclever, Peter Mayer and Volker Rittberger, *Theories of International Regimes*, Cambridge University Press, Cambridge, 1997, p. 141.

cognitivists point at explaining the ways in which interests are shaped and created and help cooperation, emphasizing the role that 'emerging and shared ideas' may have in preferences formation or change through accommodations and learning processes. Cooperation can be learned because interests may be re-shaped and not because states adjust to structural changes.<sup>7</sup> As an example, according to this interpretation the Non-Proliferation regime has come about because both the superpowers realised the dangerousness of nuclear arms and therefore the necessity to cooperate to have their safety guaranteed, "the rules and institutions not only constrained short-range self-interest, but they helped to reshape long-range self-interest so that non-proliferation has become a major interest for both states".<sup>8</sup>

The creation of institutions and regimes produced by shared belief drives actors' expectations and may re-define their interests, while for rationalist theories their actual impact would be appreciated when considering the new strategies at hand for the pursuit of fixed interests provided by the alteration of their costs and benefits. The idea of knowledge as a driving force towards change does conflict with the main underpinnings of the traditional theories, but it has gained moment in particular turning points such as the implosion of the Soviet Union, supposed to be caused by the emergence of a 'new thinking'. As seen, this approach is not incompatible with the rationalist theories, and instead it could provide a more informed setting when explaining specific events. Nevertheless, it is difficult to assess when a particular idea is going to emerge and whether it is going to prevail on other ideas: it is difficult to assess if a demand for cooperation will arise. What if cooperation or change do arise without a change in basic ideas? The way in which change may occur creates one of the most apparent weaknesses of this approach: while there is a certain consent on what causes change this school lacks a causation pattern as the one highlighted by the liberal one. To correct this flaw theorists propose 'shocks' as one of the explanatory variable of change or slow process of alteration that occur in International Relations or mutation in states' interactions (proposition of a signal of change, interpretation of this latter by the other parties and consequent answer).

In fairness the added-value of this approach has been appreciated and recognized if we consider that both some realist and neo-institutionalist

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<sup>7</sup> Joseph S. Nye, "Nuclear Learning and US-Soviet Security Regimes", *International Organization*, 41, 3, Summer 1987, p. 372.

<sup>8</sup> *Ibid.*, p. 397.



pundits have, on some occasions, flirted with 'cognitive' insights, cases in point being John Ikenberry in his explanation of the persistence of the American power, Stephen Krasner in his book about Sovereignty, Stephen Walt in his "balance of threat" theory, or Robert Jervis in his argument about perceptions and misperceptions.<sup>9</sup> The ability of this approach to fit traditional theories is especially due to a persistence of a 'state-centered' focus: in this way speculation about the behaviours of states in particular circumstances may explain shifts from mainstream guidelines foreseen by the classic and sometimes too parsimonious theories.

Of a totally different emphasis are the 'strong' cognitivism approaches: these ones question the rationalist approach assumed by the utilitarian theories by saying that every rational choice is not conceivable if not derived from the identities and social institutions in which it is embedded. From this point of view it is this basic social context that guides states' actions according to their position within it: states are 'role players' and not 'goal-seeking', and would not choose the most rewarding strategy but the most appropriate one. International regimes are therefore inserted in a broader frame of social institutions and shared identities and will exhibit both a regulative and constitutive dimension, "on the one hand, they operate as imperatives requiring states to behave in accordance with certain principles, norms and rules; on the other hand, they help create a common social world by fixing the meaning of behaviour".<sup>10</sup>

Various cognitivist approaches put an emphasis on peculiar elements for the creation and essence of regimes: the importance of the 'international society' (English school) to motivate an 'obligation' for the respect of norms and rules; the importance of communication among members to forge or preserve a shared vision on norms of conduct or to consider their likely interpretation and application in specific contexts through 'persuasion', "behaviour is thus not coordinated by external incentives but by common understanding of what a given situation requires social actors to do";<sup>11</sup> the importance of

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<sup>9</sup> Robert Jervis, *Perception and Misperceptions in International Politics*, Princeton, Princeton University Press, 1976, ch. 6, John G. Ikenberry, *After Victory: Institutions, Strategic Restraint and the Rebuilding of Order after Major Wars*, Princeton, Princeton University Press, 2001, Stephen D. Krasner, *Sovereignty: Organized Hypocrisy*, Princeton University Press, 2000, Stephen M. Walt, *The Origins of Alliances*, Cornell University Press, 1987.

<sup>10</sup> Andreas Hasenclever et al., 1997, p. 163.

<sup>11</sup> *Ibid.*, p. 177.

the social intersubjective process of collective identity formation when relating with other actors that pushes towards new interests in favour of cooperation. From this point of view these approaches diverge significantly from the neo-institutionalist one which also stresses the positive role of regimes and institutions on states: according to this school, even if regimes do help states cooperate they are not likely to change states' interests but to advance their achievement. This is why they are considered as 'intervening' variables rather than 'independent' ones. The emphasis of the strong cognitivism scholars on communication, persuasion and interpretation gains a particular relevance in the light of our research: most of the studies conducted by these pundits refer to the European Union as a quasi- 'pluralistic security community' according to Deutsch terminology: even if motivated by egoistic reasons and aimed in particular to avoid the horrors of the past, European states, through institutions, have come to downplay their previous 'national' identity in favour of a 'we-feeling' awareness, to the point that a war among them is now unthinkable. The 'de-securitization' of their practices has reinforced and has been reinforced by their common identity.<sup>12</sup> In analysing the case of defence procurement it will be clear how this approach is far from reality at least in security issues: in fact, it is difficult for these pundits to explain why cooperation on some matters is still seen as troublesome for

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<sup>12</sup> Constructivism states basically that there is not an objective reality out there but that this latter depends on actors' perception and interpretation of it. Karl Deutsch' s pioneering work dating back to the end of the '50s has been considered an inspiring masterpiece for most of the constructivist theorists. The author emphasized how among the security community (North-Atlantic) the settlement of disputes among actors would have been resolved pacifically and diplomacy would have replaced coercion if divergences were likely to arise, so that in the region, the fear of war disappeared and the security dilemma was resolved. De-securitization means in this context that security disappear from the political agenda of the states of the region. In his studies Deutsch referred prominently to the North-Atlantic region as the one where a sort of 'we-feeling' process did progressively take shape. He, together with other pundits, emphasized the importance of institutions in downplaying tensions among states and forging new and common interests through meetings and communication. In this sense he started his analysis not by denying the real uncertainties and threats perception among states but went on by emphasizing the positive role of institutions in mitigating them, a process well considered also by Adler and Barnett, see Emanuel Adler and Michael Barnett, eds. *Security Communities*, Cambridge University Press, 1998.

European states and why they do still try to preserve their national prerogatives as much as possible.

Krasner points out that if for the realist and institutionalist schools regimes are phenomena to be explained for cognitivists they are data to be described.<sup>13</sup> Hopkins and Puchala say that regimes exist in all areas of international relations, because statesmen always perceive themselves as constrained by principles, norms and rules that proscribe and prescribe varieties of behaviours. Issue areas in this case do not circumscribe the frontier of a regime because regimes represent shared perception among states and therefore a patterned behaviour.<sup>14</sup> According to some other scholars a regime is an attitudinal phenomenon: behaviour follows from adherence to principles, norms and rules that legal codes sometimes reflect. Young stresses that patterned behaviour inevitably generates convergent expectations that lead to conventionalized behaviours. If there exists a pattern of connected activities there must be some form of norms or procedures.<sup>15</sup> Nevertheless, as Stein correctly points out, such an interpretation of regimes risks being too encompassing, and risks associating regimes with behaviour and blurring causes with effects.<sup>16</sup> Ruggie says that it is possible to discover the existence of regimes by their principled and shared understandings of desirable and acceptable forms of social behaviour.<sup>17</sup> Therefore, regimes seem like cognitive entities because they give birth to mutual expectations and agreement about appropriate behaviours.

According to these authors, then, the study of regimes must be faced in "sociological terms". There is nothing to explain about regimes, but they can only be described. But how powerful and developed is the degree of 'institutionalization' from which all strong-cognitivists approaches derive their main arguments and what the influence on states and practices? Indeed, most of the times schools of thought are

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<sup>13</sup> Stephen Krasner, 1983, p. 10.

<sup>14</sup> Raymond F. Hopkins and Donald J. Puchala, "International Regimes: Lessons from Inductive Analysis", *International Organization*, 36, 2 Spring 1982, pp. 245-275.

<sup>15</sup> Oran R. Young, "Regimes Dynamics: the Rise and Fall of International Regimes", in Stephen Krasner, ed., 1983, pp. 93-113.

<sup>16</sup> Arthur A. Stein, "Coordination and Collaboration: regimes in an Anarchic World", in Stephen Krasner, ed. 1983, p. 115.

<sup>17</sup> John Gerard Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Post-war Economic Order", in Stephen Krasner, 1983, pp. 195-232.

prone to answer different questions and this make them less useful when a research attempt does not find satisfying for its own ends their assumptions or starting points. The main problem with the cognitivists' arguments is that most of the time principles and norms that characterize a regime do not represent 'socially constructed agreement'. As Hasenclever points out, "rules written down on a piece of paper do not constitute social institutions, nor do promises or contracts".<sup>18</sup> Agreed principles and norms are time and again the fruit of compromises between states' interests and the product of most powerful states' influence, "sorting out the autonomous influence of knowledge and ideology can prove extremely difficult in practice, particularly where there is a congruence between ideology and structural position. If structural theories are weak on cognitive variables, most cognitive theories cannot describe clearly how power and ideas interact. The same set of objections may even extend to knowledge-oriented 'cognitivism'."<sup>19</sup> Regimes do represent forms of coordination between different states that need to be explained and not described; the cognitive approach does not answer the question "why do states cooperate", which is the first question that motivates this research.

## **1.2.2 The rationalist schools of thought: broadening the scope for cooperation**

In this section a brief presentation of the neo-institutionalist and the realist schools approaches to regimes is provided. Most of the literature about regimes has been written during the Cold War where the systemic configuration characterizing this latter has for sure constrained and in a certain way helped states pursue their objectives by narrowing their scope. Under these constraints cooperation has been achieved between states thanks to the most powerful leader of the pole. The realist Hegemonic Stability Theory<sup>20</sup> was the best explanation for the accounting of cooperation between states and for the provision of regimes.

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<sup>18</sup> Andreas Hasenclever et al., 1997, p. 19.

<sup>19</sup> Stephan Haggard and Beth A. Simmons, "Theories of International Regimes", *International Organization*, 41, 3, 1987, p. 512.

<sup>20</sup> For a review of the hegemonic stability theory see Robert Gilpin, *The Political Economy of International Relations*, Princeton University Press, 1987.

With the demise of the Cold War the realist school found itself puzzled by seeing that forms of cooperation between states did resist the decline of the hegemonic power. Cooperation between actors had then to be explained anew and risked damaging the very underpinnings of the realist thought that explained it in terms of power and related interests. If the hegemon was the supplier and the guarantor of a regime its demise would have signified a decrease of cooperation perspectives: contrary to this forecast, cooperative settings seemed to mushroom and this shifted the emphasis of the regime debate from the “supply side” to the “demand-side” of regimes, focussing on the reasons spurring states to create regimes. The neo-institutionalist school, with Keohane on the forefront, seemed able to provide a sound explanation for the persistence of regimes in the absence of a hegemon.<sup>21</sup> His contractualist theory of regimes, discussed below, seemed to reduce the leverage of the realist theory by demonstrating that rational egoistic actors in an anarchic world were able to cooperate thanks to the creation of institutions. Summing up, the realist school seemed to be on the defensive as for the explanation of international regimes as forms of cooperation out of traditional alliances patterns—even if some pundits did assert that the presence of regimes was totally consistent with the realist assumptions of sovereignty and self-reliance that allowed states to build up regimes when tackling ‘dilemmas’-<sup>22</sup> while, the neo-institutionalist school seemed to be able to provide a powerful theory of “regime demand”, even if this approach did not face the ‘supply-side’ issue of regimes provision.

The neo-institutionalist theory of regimes aims at answering the question “why are states likely to ask for regimes”. Robert Keohane’s theory is a ‘functionalist’ one, since he explains regimes in terms of their results. Precisely, he states that regimes are demanded because they will help states achieve cooperation and cooperation may assure the achievement of common interests. This narrow focus leaves out other fundamental issues in international bargaining: will everybody win? Will states always pursue cooperative outcomes? What if states are not able to create regimes? Will cooperation be pursued in other ways and with other tools? These questions cannot be answered

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<sup>21</sup> See Robert Keohane, *After Hegemony*, 1984, and Duncan Snidal, “The Limits of the Hegemonic Stability Theory”, *International Organization*, 39, 1985, pp. 579-614.

<sup>22</sup> Arthur A. Stein, “Coordination and Collaboration: Regimes in an Anarchic World”, *International Organization*, 36, 2, 1982, p. 324.

essentially because of the basic assumptions delineated by the author. In fact, Keohane asserts that most of the situations in international relations can be considered as a Prisoner's Dilemma games,<sup>23</sup> in which states share some common interests but fail to reach them because cooperation, while Pareto-optimal, is neither individually achievable nor a stable strategy. There is always an incentive to cheat for states, because by cheating they will gain the higher pay-off on the matrix. Prisoner's Dilemma games have always been used to explain 'economic problems', such as market failures situations, collective goods sub-optimal provision and externalities effects. In all these situations actors prefer to cheat because they lack information about the behaviour of other actors. What Keohane does, in fact, is to rely broadly on the economic field in stressing cooperative dilemmas; this operation, though, poses two problems: first, it seems implicitly to fit only economic cooperation settings and second it neglects the much more stringent (distributional) dynamics occurring among states. This has given both a misleading depiction of cooperative problems and posed a too optimistic confidence on the effectiveness of regimes. As it will be seen below, criticisms have not only arisen from realist pundits but also from neo-institutionalist ones.<sup>24</sup>

The main assumption of his theory is that states have a common interest but fail to achieve it because they fear of being cheated by other actors. They lack information about other states' behaviours, they do not know what to expect from them: uncertainty, therefore, stems the

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<sup>23</sup> The prisoner's dilemma is an asymmetrical game where each player prefers mutual cooperation to mutual defection, but where an actor is still better off if he does not cooperate when the other player does it. The least preferable result is when the player cooperates while the other one cheats. In an isolated Prisoner's Dilemma cooperation is very unlikely, since each player will find it not rational to cooperate; the dominant strategy is in fact not to cooperate, no matter what the other actor does. At the end, both of the players are worse off than if they had cooperated and behaved irrationally. The two players have a common interest in achieving a position in which both of them cooperate but they are not able to realize this result.

<sup>24</sup> In particular Coase affirmed that if a legal framework setting liability for action does exist together with perfect information and without transactions costs then cooperation among two actors could arise out of the existence of negative externalities. Following this consideration, argues Keohane, it is possible to say that if regimes do exhibit at least one of these conditions they will be able to favour agreements among states, see Robert O. Keohane, "The Demand for International Regimes", *International Organization*, 36, 2, 1982, p. 338.

pursuit of cooperative solutions. Nevertheless, if a system would be created to assure the spread of information and the perspective of future encounters, then cooperation will be assured.

This is the reason why regimes are created: states want to cooperate to achieve their mutual interests but lack the incentives to do so. Regimes, by providing information, create an environment sound for cooperation: “international regimes perform the functions of establishing patterns of legal liability, providing relatively symmetrical information, and arranging the costs of bargaining so that specific agreements can more easily be made...like oligopolistic quasi-agreements, international regimes alter the relative costs of transactions...by elevating injunctions to the level of principles and rules regimes construct linkages between issues...in market failures terms the costs of some transaction are increased while those of others are decreased...international regimes allow government to take advantage of potential economies of scale. Once a regime has been established, the marginal cost of dealing with each additional issue will be lower than it would be without a regime”.<sup>25</sup>

A Prisoner’s Dilemma game is a “dilemma of common interests” as Stein puts it,<sup>26</sup> and is commonly used in the economic field to illustrate situations such as market failures, problems of collective goods provision and of externalities in which government intervention is necessary to insure that the Pareto-efficient solution is achieved. The creation of regimes, from this perspective, is not intended to substitute the role of the state, because regimes lack a real enforcement mechanism, but to provide a framework conducive to cooperation. Once arrived at this threshold cooperation follows almost automatically from the correction of the cheating problem and from the expectation of future meetings (that regimes should promote): all states, while achieving the Pareto-efficient result, are inevitably better off. The ranking of preferences for this game is DC, CC, DD, CD.<sup>27</sup>

Aside from pure economic problems the Prisoner’s Dilemma (PD) configuration has been used to depict zero-sum security issues, in particular the ‘security dilemma’ condition arising in an anarchical

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<sup>25</sup> Robert Keohane, *After Hegemony*, 1984, pp. 88-90.

<sup>26</sup> Arthur Stein, in Stephen Krasner, ed., 1983, p. 120. Optimal Pareto results are defined as those situations in which at least one actor can achieve a better result while not worsening the utility of the other player.

<sup>27</sup> Since in this game the dominant strategy is to defect and since mutual defection leads to sub-optimal results states should avoid to pursue their dominant strategy.

system where all actors pile up arms even if all of them would rather disarm: this slippery slope will end in the worst possible scenario of mutual insecurity.<sup>28</sup> It should be emphasized that while the PD gloomy expectations are apparently mitigated by the neo-institutionalist school through the building of regimes or institutions it has been more difficult to relate this configuration with the prospect for regimes building in security issues. Thus, if the game depicts the states' dilemma, regimes and institutions are in no way a palliative. The direct problem in these cases stems from a systemic feature, that is, the anarchic nature of the system rather than from the lack of information: this latter would not modify the nature of the system and therefore there will be no incentive for regimes formation as in economic issues.

As Haggard and Simmons maintain, regimes can be assumed as forms of cooperative actions and they may themselves foster cooperation: but if cooperation can arise even apart from regimes or defined institutions is cheating the most relevant problem characterizing cooperative issues?<sup>29</sup> States do not decide to act together and to coordinate their actions only or mainly to achieve Pareto-optimal outcomes and therefore to insure a particular result, but sometimes they act more likely to avoid a particular outcome.

This consideration sheds a new light on the argument aforementioned: while the PD has been employed to address particular economic and security issues other cooperative situations and problems may characterize bargaining among states. For example, Stein argues that the "dilemma of common aversion" may arise when "actors with contingent strategies do not most prefer the same outcome but do agree that there is at least one outcome that all want to avoid".<sup>30</sup> The dilemma of common aversion is represented with another game, the

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<sup>28</sup> The conditions that make the security dilemma arise, though, are quiet restrictive for Jervis: either offensive weapons are present and should overcome defensive ones or a clear distinction among weapon systems is not possible, see Robert Jervis, "Cooperation under the Security Dilemma", *World Politics* 30, 1978, pp. 167-214. As apparent, relevant is in Jervis the role of perceptions in international affairs. In a situation when the dilemma does not come about, argues Stein, the dominant strategy of actors would not be to arm themselves since by doing that they could not gain advantage towards those who do not arm, and to pile up arms would not serve as a defence against others' defensive weapons, see Arthur Stein, 1982, p. 320.

<sup>29</sup> Stephan Haggard and Beth A. Simmons, 1987, p. 495.

<sup>30</sup> *Ibid.*, p. 125.



coordination game,<sup>31</sup> as a situation in which two equilibria are present that can be achieved if the players just eschew to act independently and simultaneously: instead, they should coordinate their actions. Here the problem is not one of cooperation, but a problem of coordination: players should coordinate themselves to avoid ending up in one of the two results that neither of them wants. States that agree on avoiding mutual unilateralism would not have particular problems to concur on the creation of a regime, but problems do arise when states try to achieve their preferred outcomes. Coordination games depicts therefore different situations from those envisioned by the PD, and this changes completely the opportunity for cooperation, the difficulties to be faced to reach agreed arrangements and the robustness of the regimes achieved.

The objective of broadening the neo-institutionalist agenda by emphasizing the different potential situations characterizing collective actions problems is a fruitful attempt of the 'situation-structural' approach. The positive contribution of this approach is to strengthen the explanatory capability of the neo-liberal regime theory by expanding the scope of collective problem situations: according to this reasoning, coordination, assurance and suasion games provide new insights for the probability of regimes formation and for their features. By inserting itself between the system and the actual behaviour and by emphasizing the context in which actors do find themselves to play, this approach assures a sounder depiction of the reality. By the same token, the 'problem structural' approach which claims to be part and to complement the neo-liberal tradition contributes to the regime research upgrading the issue-areas and the different 'conflicts' each of these latter is likely to spur as the main elements influencing the likelihood and features of cooperation.<sup>32</sup>

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<sup>31</sup> The illustration of the coordination game is mostly exemplified by a couple who would like to spend an evening together but that has different preferences about what to do: this is the Battle of the Sexes in which two Pareto-optimal outcomes exist and are preferred by both actors to a situation in which coordination is not achieved. Both coordination points are equilibrium points, and therefore if coordination is achieved the outcome will be stable. Nevertheless, the two actors could differ in their preferred point: which point will be chosen? When divergent options do appear a distributional problem is likely to emerge.

<sup>32</sup> 'Assurance' games reflect those situations in which two equilibrium outcomes do exist only one of which being Pareto-efficient (mutual cooperation): the achievement of sub-optimal results can emerge if misperceptions on the

If situations in which states find themselves to act may vary and may pose different cooperative challenges the literature on regimes should be broadened so as to open the way for new research investigations. Therefore, as in the case of defence procurement, it is paramount to underline the game that best reflects the cooperative challenge at hand and the context in which actors attempt mutual arrangements. While this will be done in the next sections it is first of all necessary to pinpoint the issue- area we are dealing with, security, in order to grasp all the potential tensions and pitfalls it may spur. Only after this step it will be possible to mitigate traditional security concerns while taking into account the importance of 'distributional' or 'positional' challenges that this issue-area inevitably endorses and examine the likelihood of cooperation.

### **1.3 The likelihood of cooperation in security matters**

While economic regimes have been broadly studied and analysed, security ones have posed more challenges, the reason being that cooperation processes between states have not been recognized as security regimes but have been explained either as defence alliance mechanisms or strategies for the pursuit of short-term interests. If we consider the definition of regimes as 'formal and informal principles, norms, rules and decision making procedures around which actors' expectations converge in a given issue area of international relations'<sup>33</sup> it is easy to see the problems that security regimes may encounter: first of all, because of security implications it is unlikely that states bind themselves giving birth to institutionalized forms of cooperation and rely on common principles, norms and rules. Second, because of the issue-area at question, actors' expectations can only hardly converge when the security dilemma is on the forefront. Cooperation is more difficult because the stakes are higher, the calculus of interests more complex and the mistrust among actors more relevant. According to

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ranking of preferences exists or because of the supposed irrationality of one of the players. Regimes, in these cases, can promote communication among members. 'Suasion' or 'Rambo' games reflect situations where only one equilibrium possibility does exist and where this latter is rewarding only for one actor which should therefore be compelled to cooperate through promises or threats. See Hasenclever, 1997, pp. 45-68.

<sup>33</sup> Stephen D. Krasner, ed., 1983, p. 2.

Lipson, "security issues are inherently more conflictual than economic ones, and their equilibria less stable".<sup>34</sup>

Nevertheless, it is probably because of the security dilemma that actors at a certain point agree to release their short-term interests. As Jervis points out, "both the incentives for establishing such regimes and the obstacle to so doing are especially great in the security arena because of the security dilemma"<sup>35</sup>. Moreover, not all security concerns are strictly related to security dilemma situations and take therefore the form of a zero-sum game.<sup>36</sup> Relations that enter the sphere of security are particularly relevant because this latter is valued, aside for stability, for the achievement of other fundamental states' concerns, such as prestige and independence. Jervis emphasizes that security regimes can be defined as "those principles, rules, and norms that permit nations to be restrained in their behaviour in the belief that other will reciprocate"<sup>37</sup> and that they are especially valuable for states pursuing them but particularly difficult to create, because they imply something more than the pursuit of short-term interests and require some forms of restraint that are expected to be reciprocated by other states. There should be therefore a common interest among states in avoiding a particular result, to eschew undesirable actions resulting from a non-coordinated path. Lipson points out that it is misleading to believe that, because of their conflictual nature, security regimes do not present the opportunity for joint gains or at least the prevention of joint losses".<sup>38</sup> In his considerations about security regimes Jervis lists a number of conditions that should be met in order to achieve a security regime: he emphasizes that the great powers must want to establish it, "they must prefer a more regulated environment to one in which all states behave individualistically"<sup>39</sup>. Also, the actors must believe that the other states have an interest in the persistence of mutual cooperation and security. Comparing the Concert of Europe and the balance of power between

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<sup>34</sup> Charles Lipson, "International Cooperation in Economic and Security Affairs", *World Politics* 37, 1984, p. 13.

<sup>35</sup> Robert Jervis, "Security Regimes", *World Politics* 30, 1978, p. 358.

<sup>36</sup> See on this point Joanne Gowa, "Anarchy, Egoism, and Third Images: The Evolution of Cooperation and International Relations", *International Organization*, 40, 1, 1986, pp. 167-186 and Joseph Grieco, Robert Powell and Duncan Snidal, "The Relative-Gains Problem for International Cooperation", *The American Political Science Review*, 87, 3, 1993, pp. 733-734.

<sup>37</sup> Robert Jervis, 1978, p. 357.

<sup>38</sup> Charles Lipson, 1984, p. 13.

<sup>39</sup> Robert Jervis, 1978, p. 360.

the United States and the Soviet Union, Jervis provides a useful understanding of what a security regime is. The Concert of Europe was a security regime supported by major powers and their interests to avoid war; the self interest followed was longer-run than usual, while in normally competitive international politics direct and immediate gains are searched in an agreement. Moreover, because of their power, the states constituting the Concert did not fear destruction in case of defection. Consequently, a state's gains through defection would have been limited in scope.<sup>40</sup>

According to Paul Schroeder, the Concert of Europe, and in particular the institutional arrangements and diplomatic conferences designed, did assure the existence, the security, the status and the pursuit of fundamental interests of all the powerful European actors but compelled also to respect treaties, the non-interference principle and to preserve moderation.<sup>41</sup> Also, aside from the norms foreseeing self-restraint, consultation, rejection of unilateral actions and engagement in favour of stability, there were some detailed rules of conduct, among which: diplomatic meetings and conferences aimed at tackling crises; no unilateral territorial change; protection of the members of the system and respect of the interests and reputation of big states.<sup>42</sup>

The balance of power situation was not a security regime according to Jervis, because in this case short-term calculations of self-interest accounted for restraint, "that each side has more or less respected the other's sphere of influence does not mean that each side has developed the stake in the other's security or the expectation of reciprocity that was found in the Concert".<sup>43</sup> In this situation states were constrained

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<sup>40</sup> *Ibid.*, pp. 364-365. See also Robert Jervis, "From Balance to Concert: A Study of International Security Cooperation", in Kenneth A. Oye, ed., *Cooperation Under Anarchy*, Princeton University Press, 1986, pp. 58-79.

<sup>41</sup> Paul W. Schroeder, "The 19th-Century International System: Changes in the Structure", *World Politics*, 39, 1, 1986, pp. 1-26. The author emphasises that peace and stability were structurally-determined: therefore they depended not on statesmen intentions or choices but rather on "what the prevailing system constrained them from doing or permitted them to do", p. 2.

<sup>42</sup> Louise Richardson, "The Concert of Europe and Security Management in the Nineteenth Century", in Helga Haftendorn, Robert O. Keohane and Celeste A. Wallander, ed., *Imperfect Unions*, Oxford University Press, 1999, p. 52. Aside from norms and rules specific procedures were agreed upon in order to prevent crisis outbreaks.

<sup>43</sup> *Ibid.*, 367. This interpretation is not shared by other pundits such as, for example, Joseph Nye who instead affirms that the United States and the Soviet

only by 'external' restraints or by the consideration of others' reaction to one attempt at damaging others' interests. It goes without saying that different authors share different opinions about the likelihood of the 'balance-of-power' condition as a security regime, according to the interpretation of this latter either as a systemic outcome or as an active strategy deployed by states.

The Non-proliferation regime is often cited as an example of a security regime even if discordance exists on whether it mirrors a prisoner's dilemma situation or an assurance one.<sup>44</sup> Its creation was mainly decided by the two superpowers which had an interest in avoiding the proliferation of weapons of mass destruction among other non-nuclear states. The regime has been shaped according to the interests and power of the superpowers and has been characterized by loopholes, *éscamotages* and double standards. Nevertheless, and notwithstanding this 'deficient bargain', it has persisted because of the recognition by all states of the importance of a reciprocally restrained behaviour. The norms leading cooperation emphasize the necessity to prevent the horizontal spread of nuclear weapons while at the same time to help developing states in conducting peaceful nuclear programmes.<sup>45</sup> Also, aside from the nuclear proliferation 'focal point' there was the 'disarmament' one which forecasted an engagement to progressively reduce nuclear weapons by yet nuclear states: it is here that a strong imbalance on focal points came about among two categories of states. As Roger Smith points out, these norms derive from the awareness that nuclear weapons do not cause direct conflict but are able instead to

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Union did assume joint positions within some sub-issues of their security relationship, therefore confirming the existence of regimes in these settings. See Joseph S. Nye, 1987, p. 391.

<sup>44</sup> In the first case rationality would lead to defect while in the second defection would be determined by irrationality.

<sup>45</sup> Trevor Mc Morris Tate, "Regime-Building in the Non-Proliferation System", *Journal of Peace Research*, 27, 4, 1990, pp. 399-414. The author provides a detailed lists of agreements and institutions which would form the Non-Proliferation Regime, and stresses the importance of the IAEA(International Atomic Energy Agency) as the Institution charged to monitor the peaceful benefits arising from nuclear activities through inspections. Important also is this latter Institution' s duty to provide information and knowledge thanks to regular meetings. The birth and the working of the IAEA has been jointly spurred by the USA and USSR efforts. While the IAEA is the most important safeguard organism it has not an enforcement mechanism.

embitter relations among states and open up rooms for strains.<sup>46</sup> Coordination of actions was necessary and was the basic element of the regime, even if it ended up reflecting the interests of the strongest powers. Cooperation on this gloomy issue seems to endanger the basic assumptions of the realist school which nevertheless recognizes that the 'nature' of this particular weapon can somehow impinge on systemic pressures by impacting directly on differences in states' capabilities.

That said it is possible to sum up some important features of security regimes, namely the fundamental role of power and especially of the strongest states (which are those that could potentially pursue unilateral actions) in order to create them in the first hand, the common interest in avoiding a particular outcome and coordinating actions so as to mitigate the probability of unilateral actions, a shared stake in the persistence of the regime. According to these findings it is possible to speculate about the reasons of the demise of a security regime. It could happen that at a certain point states do not share any longer the desire to avoid a particular result and coordinate their policies for that objective. In these cases the context in which actors cooperate should change in a significant way: this can happen, for example, when an actor has become much more powerful than others, so that it is possible for him to achieve its objectives through unilateral actions. The context, therefore, assumes a particular relevance when facing security issues: Jervis conferred to the post-hegemonic specific configuration, interests and capabilities part of the explanation for the mitigation of the security dilemma among states. The mutation of that context impacted negatively on the perspective of cooperation.

As Cirincione et al. points out, one of the potential challenges to the Non-Proliferation regime is the current administration's linkage of rogue states with terrorism: because of the challenges that the United States may face, it expressed an interest in testing new weapons, *de facto* undermining the main underpinnings of the regime.<sup>47</sup> Conflicts among major powers may arise, as in the case of the Concert of Vienna,

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<sup>46</sup> Roger K. Smith, "Explaining the Non-Proliferation Regime: Anomalies for Contemporary International Relations Theory", *International Organization*, 41, 2, 1987, p. 257. On the 'imbalance' between the two focal points of 'disarmament' and 'non-proliferation' see Dinshaw Mistry, "The Unrealized Promise of International Institutions: The Test Ban Treaty and India's Nuclear Breakout", *Security Studies*, 12, 4, 2003, pp. 116-151.

<sup>47</sup> Joseph Cirincione with Jon B. Wolfstahl and Miriam Rajkumar, *Deadly Arsenals: Tracking Weapons of Mass Destruction*, Carnegie Endowment for International Peace, Washington DC, 2002, pp. 20-21.

because actors' short and long-term interests end up differing in a significant way: when the bulk of the Concert resided on preventing France from becoming anew a threat to Europe the Concert did not pose particular challenges. In fairness the geometry of the Congress was aiming at maintaining a stable balance within Europe: Russia gained a lot but Austria and Prussia did it to, so as to create strong buffer zones within Europe. France was, after some years, re-admitted to the European power-game, the idea being that her presence was strategically paramount to keep stability. Britain did not gain anything in the Continent aside from an overall balance that did match with her broader interests off-shore, assured and strengthened with important commercial spots. When the initial aim motivating the Concert disappeared, and instead stability was conceived as the preservation of conservative and traditional regimes through interventions to calm down uprisings, Britain started to progressively detach from the Concert while remaining loyal to the initial aim of gathering with the other powers when peace was threatened: she started to perceive that the Concert was now employed to satisfy unilateral interests. This shows how each state's relations with actors involved in the cooperative setting are of the paramount importance in order to explain regimes formation, persistence and demise.

#### **1.4 Coordination to achieve security objectives: the role of power**

What done in the previous sections had the objective to frame the issue-area of defence procurement, namely to present the problems that security as an issue is likely to pose on cooperation attempts. If the classic representation of security issues has been the Prisoner's dilemma game because of its zero-sum nature, there are reasons to believe that this configuration does not fit with the regime of our concern for a series of reasons. Needless to say, defence procurement regards the acquisition and management of destructive means, which no doubt collocates it within security matters. Nevertheless, the regime exists within the framework of the European Union and within the European strand of the Atlantic Alliance: as was the case in the Concert of Europe, "important here is the expectation that peace could be maintained. For if wars were seen as likely, states would have to concentrate on building up their short-run power to prepare for the

coming conflict”;<sup>48</sup> the fact of being within an alliance and within a kind of ‘security community’ should somehow mitigate the zero-sum perspective.

More in general, not all security issues involve a security dilemma situation; instead, some of them present different challenges from those proposed by PD game. This is even more apparent if we have a quick look at the same ‘security’ concept and the way it has been reshaped and broadened after the end of the Cold War. The fact that previous analysed security regimes have taken place among adversary parties weighted on the gloomy opportunity for cooperation, “this recurrent image of competitive struggle, and the anarchic condition in which it is rooted, naturally limits the scope and durability of security agreements between potential adversaries. In spite of the risks, however, agreements are still possible if each side has reasonable grounds for confidence and if defection does not threat devastation”.<sup>49</sup> Cold War’s conception of security, argues Baldwin, was associated with ‘military force’, so that if the latter characterized an issue then the challenge became a security one and if the use of military force was not at stake the situation was regarded as a ‘low politics’ matter. After the End of the Cold War “the dimensions of security have not changed ...but the substantive specifications of these dimensions that were appropriate during the Cold War are likely to differ from those appropriate for the 1990s. Economic security, environmental security, identity security, social security and military security are different forms of security, not fundamentally different concepts”.<sup>50</sup> In many cases the challenge regards possible “risks” brought about by failure to arrive at a mutual satisfying result rather than a “threat” menacing the same survival of a state.<sup>51</sup> The focus of the discussion needs therefore to be put on the internal dynamics of the cooperative setting.

As it will be highlighted within the research, defence procurement regime is perceived to be essential by all states: it encompasses both

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<sup>48</sup> Robert Jervis, 1978, p. 366. Glenn Snyder affirms that while the decision to join an alliance reflects a Prisoner’s Dilemma context once the alliance is formed problems within it may or may not mirror such a game, see Glenn H. Snyder, “The Security Dilemma in Alliances Politics”, *World Politics*, 36, 4, 1984, p. 466.

<sup>49</sup> Charles Lipson, 1984, p. 16.

<sup>50</sup> David A. Baldwin, “The Concept of Security”, *Review of International Studies*, 23, 5, 1997, pp. 9, 23.

<sup>51</sup> Helga Aftendorn, Robert O. Keohane and Celeste A. Wallander, ed., 1999, p. 25.



relative and absolute gains concerns and is required by economic and strategic reasons. Against this background traditional security tensions are diluted “although competitive status concerns are important, they are typically combined with welfare goals, leaving some room for joint maximization”.<sup>52</sup> Security within this regime is not so much linked with survival but rather with the possibility to freely pursue prestige, independence or protect basic internal interests, “genuine security requires not only the absence of or protection against a military threat, but also the management of a multitude of risks concerning the political economic, and social well-being of states and their peoples”.<sup>53</sup> The definition of security as ‘a low probability of damage to acquired values’ broaden its realist minimal and problematic identification with survival by specifying the values meant to be protected when this latter is assured.<sup>54</sup> Even if a threat to survival is not at stake, security still encompasses some paramount values that states will strive to protect: for example, and as it will be clarified later on, in defence procurement states agree on harmonizing and jointly managing armaments but they share different opinions on how to do that because each arrangement will impinge directly on their interests or indirectly on their ability to achieve them. Situations described by these strategic features are represented by coordination games: when security matters are on the forefront, as it happens with defence procurement, these game are likely to exhibit burdensome ‘distributional’ concerns.

#### **1.4.1 Coordination and distributional concerns**

That coordination games in general do soundly depict cooperation challenges has been broadly stressed out in International Relations Theory and in Political Science too. Pundits sustain that because states differ in size and in structural power and therefore in interests they inevitably end up struggling with each other. If cooperation is agreed upon and unilateral actions ruled out, as it is often the case in international politics, then states will bargain searching to enforce their preferred outcome. It is unlikely that states share a common view on how such cooperation should be moulded, especially if the issue-area in which cooperation is taking place is security. At a more careful

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<sup>52</sup> Charles Lipson, 1984, p. 15.

<sup>53</sup> Helga Aftendorn, Robert O. Keohane and Celeste A. Wallander, ed., 1999, p. 2.

<sup>54</sup> The definition of security is of Arnold Wolfers, cited in Baldwin, 1997, p. 13.

glance, though, even economic cooperation will be characterized by strong bargaining among actors: in fact, if the concept of security is so broad as to encompass, among others, economic objectives, then actors are likely to advance their views as much as possible. As Fritz Sharp points out, “while the benefits of cooperation are more attractive than the outcomes expected in the case of non-agreement, cooperation is seriously threatened by distributive conflicts over the choice among cooperative solutions. It is probably fair to say that in the great majority of ongoing relationships that is the major obstacle to cooperative solutions”.<sup>55</sup> Also, Joanne Gowa highlights that Axelrod’s emphasis on the Prisoner’s Dilemma game as the game representing a lot of situations in international situations fails to consider that world affairs are better represented by other games, in which distributional concerns have much more weight.<sup>56</sup> In the same vein, James Morrow asserts that the Prisoner’s dilemma model emphasizes compliance and sanctioning and leaves out distributional issues, while in international situations alternative coordination options do exist, “to produce cooperation when distributional problem exist, actors must agree on how they will cooperate”.<sup>57</sup> For the case of our concern, a lot of pundits do affirm that problems of weaponry standardization reflect coordination games because the real issue at hands regards how to tailor this cooperation: which capabilities to choose and which requirements to meet, for which goals and what to renounce to.

Robert Jervis asserts that the Prisoner’s dilemma game is often employed not because it grasps the most relevant processes in the international political landscape but because it is stimulating and fosters appealing manoeuvrings; also, “the model is congruent with the

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<sup>55</sup> Fritz W. Scharpf, “Decision Rules, Decision Styles and Policy Choices”, *Journal of Theoretical Politics*, 1, 1989, p. 162. The author stresses that if the Prisoner’s Dilemma, chicken and assurance games are tailored to mirror the question of whether actors are able to cooperate, the Battle of the Sexes regards “on whose terms” they will reach a consensus. Battle of the Sexes situations reflect a huge number of every-day life situations, “not only intimate partners, but also business firms engaged in joint ventures, unions and management in collective bargaining, inter-ministerial, federal-state and inter-European policy coordination or political partners in a coalition and many similar joint undertakings...”; according to the scholar, other games have been too often and erroneously employed, p. 162.

<sup>56</sup> Joanne Gowa, 1986, pp. 167-189.

<sup>57</sup> James D. Morrow, “Modelling the Forms of International Cooperation: Distribution Versus Information”, *International Organization*, 48, 3, 1994, p. 395.

Anglo-American bias of seeing world politics as tragedy rather than as evil, of believing that most conflicts can be ameliorated for the good of all concerned".<sup>58</sup> A further consideration is the one made by James Fearon that maintains that trying to classify strategic interactions as Prisoner's dilemma or coordination games is misleading: problems of international cooperation involve first of all coordination challenges (bargaining) and then prisoner's dilemma-like situations (enforcement problem).<sup>59</sup>

In a Prisoner's Dilemma situation regimes are fundamental to bringing about cooperation and solve the cheating problem. It follows that they require a huge *collaboration* between states: the regimes that should result to solve the cheating problem and provide states with the information necessary to establish cooperation is one that must specify a strict patterns of behaviour that discourages cheating, and therefore that has a high degree of formalization. There are some problems with this statement: first of all, for however strong a regime may be it cannot substitute a state, and therefore the problem of cheating is always present; moreover, in some issues such as in security, reputation or reiteration are not a compelling and necessary motivation for cooperation. It follows that if the problem of cheating is not completely resolved, regimes are in fact not necessarily able neither to help achieve a Pareto-efficient result nor to provide incentives for states to comply with its rules. Therefore, there seems to be something flawed at the basis of PD's assumptions for cooperation: as said before, in this game cooperation is supposed to be either very difficult or regimes much stronger than how they appear to be in reality.

A regime determined to solving problems of 'common aversion' requires less from states for its creation: a shared consent to coordinate actions exists in the first hand because all states agree that their common aversion is 'mutual unilateralism'. Second, the regime is not created to solve problems of market failures or problems of collective goods, therefore enforcement is not an issue. *Cheating* is not a problem because states encompassed in a regime do not have an incentive to defeat and if they defeat it is not for reaping immediate gains but for complaining about the coordination point reached.<sup>60</sup> Then, it is more

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<sup>58</sup> Robert Jervis, "Realism, Game Theory and Cooperation", *World Politics*, 40, 3, 1988, pp. 323-324.

<sup>59</sup> James D. Fearon, "Bargaining, Enforcement and International Cooperation", *International Organization*, 52, 2, 1998, pp. 268-305.

<sup>60</sup> Artur Stein, 1982, p. 314.

probable that states form regimes to avoid acting unilaterally and to coordinate their actions for that objective. Prisoner's Dilemma and coordination games pose two different collective action problems, "the problem in PD is that in pursuing its own self-interest, each state imposes costs on the other independent of the other state's policy choice, whereas in the coordination game each imposes costs or benefits on the other contingent upon the other's policy. The collective action problem is that neither state can choose its best policy without knowing what the other intends to do, but there is no obvious point at which to coordinate".<sup>61</sup>

As said before, states differ in power and therefore in interests: all bargaining situations, independently from the issue-area, will witness a "sequence of offers and counteroffers with one or both parties 'holding out' in hope that the other will make concessions."<sup>62</sup> Then, "the basic issue in the politics of regime formation is where states will end up on the Pareto's Frontier, not how to reach the frontier in the first place".<sup>63</sup> Accordingly, states' satisfaction will be based on the distance between their preferred outcome and the coordination point reached. In the Prisoner's Dilemma game there is only a single cooperative outcome, but in coordination games more cooperative arrangements are possible because players have conflicting preferences lingering on the frontier. This implies both that achieving a minimum consent on cooperation is easier, and also that at the end the regime will represent only one of this cooperative outcomes: coordination between states will be decided mainly by power and when this is equally shared by actors distribution of rewards poses more challenges.

As Krasner points out, regime formation becomes a "distributional" problem. The real game, then, starts at the Pareto-Frontier, in which states that possess more power (in terms of military and economic resources) are able to set the conditions of the game and compel other

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<sup>61</sup> Duncan Snidal, "Coordination versus Prisoners' Dilemma: Implications for International Cooperation and Regimes", *The American Political Science Review*, 79, 4, 1985, pp. 931-932.

<sup>62</sup> James D. Fearon, 1998, p. 274. The author maintains that coordination contexts may involve either bargaining over the distribution of new or likely benefits or efforts at re-bargaining over a yet existing coordinative setting with one of the actors threatening to step out of the cooperative game if a renegotiation is not achieved, p. 275.

<sup>63</sup> Stephen D. Krasner, "Global Communications and National Power: Life on the Pareto Frontier", *World Politics*, 43, pp. 336-366.

states to coordinate their preferences to the ones set by them.<sup>64</sup> Therefore, if for the neo-institutionalism regimes represent the Pareto-Frontier, for Krasner it is a particular point of the Pareto-Frontier that represents a specific regime. The introduction of power as a tool to be employed in the “distributional conflict” arising within states inevitably poses a series of problems not considered in the Prisoner’s Dilemma situation. For example, Krasner points out that in the context of market failures issues concerning power do not come up, because once the game is defined all actors are treated equally with regard to their capabilities. Moreover, he argues, power is not considered both because states seem not to care about relative gains and because it is not apparent how this can be employed in order to solve market-failures problems.<sup>65</sup> Krasner explains that power enters the game because:

1. it can be used to determine who can play the game in the first place,
2. it can be used to dictate the rules of the game,
3. it can be used to change the payoff matrix.

Powerful actors can decide who is likely to participate in the game, that is, to invite actors able to foster their interests. Less powerful actors are not always likely to provide the most powerful actors with valuable assets. An important question to answer when addressing regime is in fact “who is in and who is out” an issue, argues Michael Brzoska, a question that the functional theory of regime seems to ignore.<sup>66</sup> Also, because powerful states can dispose of huge resources in economic and military terms they can dictate the rules of the game, for example by exploiting their possibility to threat or promise particular outcomes. Finally, because a powerful state is less likely to need cooperation it can impose his position by threatening to abandon the negotiating table and leaving all the other actors still worse off.<sup>67</sup>

Some neo-institutionalist pundits seem to overlook states’ power as influencing the bargaining game within a negotiation and instead explain it by referring to the degree of interdependence among great powers; thus Snidal asserts that “the policy choices of some states will

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<sup>64</sup> *Ibid.*, p. 6.

<sup>65</sup> *Ibid.*, pp. 6-7.

<sup>66</sup> Michael Brzoska, “Is the Nuclear Non-Proliferation System a Regime? A Comment on Trevor McMorris Tate”, *Journal of Peace Research*, 29, 2, 1992, p. 216.

<sup>67</sup> Andreas Hasenclever, Peter Mayer and Volker Rittberger, 1997, p. 106.

be inherently more significant than those of others and thus provide a relatively greater need for coordination. In general, the need for coordination between any two states will vary directly with their levels of interdependence upon one another. For example, the typical advanced industrial country will find coordination with the largest industrial powers (United States, West Germany, Japan) more important than coordination with the smaller economies (Denmark, Canada, Netherlands). This is likely to give larger countries an advantage in negotiations over international coordination".<sup>68</sup>

Power then, which was partly put aside by the neo-institutionalist school returns to play an important role in the shaping and supplying of international regimes, as it was with the Hegemonic Stability Theory. It is apparent from previous considerations, that weak states find themselves in a worse position than powerful states on the Pareto-Frontier. This means that on the one hand they find it profitable to coordinate their actions with other states; on the other hand, though, they are likely to be embedded in the decisions of the most powerful states. For weaker states coordination is often the best strategy to pursue because the gains they will receive by cooperating with stronger powers are always greater than a 'going it alone' strategy. Nevertheless, their ability to structure the cooperation setting according to their interests is downgraded by their lower power. This is not as to say that regimes will be composed of strong states, will be decided by powerful states and will leave nothing to less powerful ones.

The emphasis on power next to cooperation is to remark that states pursue different interest, will struggle for them and will have different capabilities to make them value. The regimes that will be created will not be static ones, but instead very dynamic, and this will be so because coordination games are likely to characterize much less formalized and therefore malleable regimes. The "distributional problem" will be always present and it will show some states gaining importance and advancing their interests as well as other states losing their relative power. It follows that aside from stable 'principles' regimes are likely to be very flexible as for their rules and decision-making procedures. It is also likely that if it is impossible to achieve a coordination point because the struggle is intense, regimes will end up being minimal agreements on coordination within an issue-area, losing all their robustness and value as intervening variable between states and outcomes.

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<sup>68</sup> Duncan Snidal, 1985, p. 935.

## 1.5 The basis of security regimes: avoiding undesirable outcomes

The aim of the previous section was that of highlighting the peculiar features characterizing a coordination game and its challenges and limitations. In this section the rationale for cooperation will be emphasized, the coordination game specified and the relevance of power in the creation of security regimes underlined. This passage will be useful in order to frame the context characterizing a weapons procurement regime.

As shown before, in security issues cooperation arises because states agree on avoiding particular outcomes, namely unilateral actions: actors coordinate their actions in order to eliminate this possibility. These states of affairs are labelled as 'dilemmas of common aversion': these kinds of situations involve coordination but also distributional questions.<sup>69</sup> This is so in security issues, because the problem of "who gets what" is of particular relevance. Krasner points out that, in this kind of game, while actors may recognize that all would be worse off without some agreements they may disagree about what the term of the agreement ought to be.<sup>70</sup> Therefore, power, and not only interests are relevant in coordination games and in security issues in particular. As anticipated before, the common representation of these games is a couple who agrees, but who exhibits different preferences on what precisely to do together. In these games the cooperation dilemma regards not how to reach the Pareto's frontier in the first hand, because for both actors to do something jointly provides a more satisfying solution than to remain alone: therefore two Pareto-efficient and Nash equilibria exist.

Actor A

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<sup>69</sup> Arthur Stein, 1982, p. 120.

<sup>70</sup> Stephen O. Krasner, 1991, p. 336. In this paper the author stresses that global communications have not been characterized by Nash but Pareto suboptimal equilibrium but rather by disagreements over which point along the Pareto's Frontier to choose, that is, by distributional conflicts rather than by market failures.

		c	d
Actor B	C	1,1	3,4, P, N
	D	4,3P,N	2,2

Figure 1: Battle of the Sexes, Source: Andreas Hasenclever, Peter Mayer and Volker Rittberger, *Theories of International Regimes*, Cambridge University Press, Cambridge, 1997, p. 47. According to this game, non coordinated actions give the lowest payoff: if actors individually cooperate it means that they both let the other decide where to go and no coordination is achieved. If each actor defect by advancing its own preferred outcome no coordination would arise. Coordination, instead award the highest pay-offs, even if of different degrees among the actors.

The true dilemma rests on the Pareto's Frontier, in which different arrangements produce different degrees of satisfaction for the actors engaged.<sup>71</sup> In security issues, the points along the Pareto's Frontier exhibit different trade-offs for the players, and therefore states will deploy their power in order to attain the preferred outcome. Thus, in the first years of the Concert of Europe, "while there was great power agreement on the fundamentals of the post-war system, there were significant differences between the powers on how to interpret some of these fundamentals".<sup>72</sup> Similarly, as for the concept of a European security and defence identity (ESDI), France, Germany and Great Britain, while agreeing on out-of-area intervention "advocate institutional mechanisms that solve problems related to functions in which that state is most interested".<sup>73</sup>

The stronger the perspective of the future (reiteration) or the likelihood of a highly formalized regime, the harder the bargain for achieving preferred results. Delays and harsh negotiations can therefore complicate an effective cooperative setting.<sup>74</sup>

All that said, it should be remarked that even if privileged in a cooperative setting powerful states are somehow restrained in their actions. In the case of the Concert of Europe and in the Non-proliferation regime, none of the states was able to achieve the

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<sup>71</sup> Andreas Hasenclever, Peter Mayer and Volker Rittberger, 1997, p. 105.

<sup>72</sup> Louise Richardson, 1999, p. 60.

<sup>73</sup> Carsten Tams, « The Functions of a European Security and Defence Identity on its Institutional Form », in Helga Haftendorf, Robert O. Keohane and Celeste A. Wallander, ed., 1999, p. 81.

<sup>74</sup> See on this point James D. Fearon, 1998, p. 271.



preferred outcome through unilateral actions: in the first case, states could not have achieved more security by maximizing their power positions. Instead they agreed that security (intended as the possibility of avoiding war) was better achievable through reciprocity. Rather than a Prisoner's dilemma game some pundits believe the Concert to mirror an 'assurance game', were notwithstanding a consent to cooperate, a basic lack of trust among members required transparency as well as incentives towards cooperation and against defection.<sup>75</sup> Similarly, in the case of the Non-Proliferation issue, none of the superpowers was able unilaterally to prevent other actors from going nuclear or developing the capabilities to produce nuclear arms: if they were able to do so, no regime that would have tied their hands would have been created. Of course, the regime was shaped according to their interests and because of their power, but its principles and norms were fulfilled through coordination among states.

The number of actors involved within the regimes has differed according to the international context: in the case of the Concert of Europe the regime was established among the few but dominant European powers of 1815 and assured by their coordinated actions (i.e., persistence of the anti-Napoleonic alliance and periodic consultations). In the Non-proliferation case, the regime was spurred by the two superpowers but requested the coordination of all states: the regime was therefore open in character and invited participation. Because of the broadness of the regime and the different nature of the actors participating in it, the Non-proliferation regime was formalized in a series of treaties, documents and organizations, while the Concert of Europe assumed a looser and informal shape, "formal machinery was lacking, no supranational secretariat was formed, and all decisions and their implementation remained in the hands of national leaders. But coordination was facilitated and information and expectations were fairly quickly and effectively shared".<sup>76</sup> The number of actors composing a regime is therefore of the paramount importance in order to assess how power is distributed within a defined context, the openness or exclusiveness of a regime, and the implication of a broader partnership on its effectiveness.

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<sup>75</sup> Louise Richardson, 1999, p. 55.

<sup>76</sup> Robert Jervis, 1978, p. 367. It is possible to notice the importance of expectations and discourse for Jervis within the Concert of Europe: by working together Conferences, representatives started to assume a different vision of their relations from the one of their governments.

## **1.6 Coordination as bargaining: distributional gains impact on relative gains and interests**

The problem remains to assess which are the features of the equilibrium that will be achieved. In other words, who gains what from the distributional conflict? Will weak states be invited to participate in negotiations? And are they able to exert some influence? The distributional game becomes complex because power puts under the spotlight the never-ending problems of cooperation:

- the impact on relative gains
- the impact on short and long-term interests.

These two features acquire a new relevance in coordination games, and therefore it is important to analyse the way in which they impinge on regimes formation and shape.

As said before we are considering a security regime, cooperation in defence procurement, that does not reflect a fundamental 'security dilemma' scenario: instead, cooperation is agreed upon among actors and is intended by states to achieve both short and long-term interests. Nevertheless, especially because of the issue-area, distributional conflicts may give rise to relative gains concerns. At a first glance one is tempted to say that cooperation is more difficult because of these two problems (cooperation impact on relative gains and on short and long-term interests). However, this section will explain not only how these two concerns can 'combine' with regime, but also that regimes can help reduce the problem arising from them. The analysis of 'relative gains' is undertaken only considering relationships among powerful states that are likely to struggle within the regime, since states that have similar capabilities are more likely to be concerned with relative gains issues. The analysis of short and long term interests will state that while regimes are likely to advance powerful states' interests in the short term they are likely to advance long-term interests both for powerful and less powerful states if these latter do participate into the regime. The following considerations, therefore, will show how the allocation of benefits and costs of cooperation can be internalized in a regime.

### **1.6.1 The issue of relative gains**

How do relative gains concerns impinge on the distributional game? This seems to be a very important issue among powerful states. Distributional concerns arise whenever actors propose different

arrangement settings: these, of course, will depend on the interests a state searches to pursue. Nevertheless, given that a certain coordination point will impact on a state's relative power position and this latter on the possibility to pursue further interests it is fair to state that distributional struggles arise also because states attempt, especially in security issues, at maintaining or increasing their relative power regarding other cooperating states.

Relative gains have always been a main concern of the realist pundits not because states try to pursue them,<sup>77</sup> but because, by pursuing first of all security, states may be concerned on how other states' security and power may impinge on their own. Joseph Grieco's critique of the neo-institutionalist theory of regimes has been almost entirely based on the relative gains issue.<sup>78</sup> Grieco's assessment about relative gains is calibrated on the Prisoner's Dilemma game: as in this latter, a state may avoid cooperating because it fears that by doing that the other state may achieve a higher payoff. Instead, relative gains concerns is a much broader and encompassing issue that involves all cooperative situations in different issue areas, "these concerns are likely to be greater in the security area than in international economics, but they are present in the latter as well, especially because military and economic strengths are closely linked...even among allies, concern for relative gains is rarely completely absent",<sup>79</sup> and Duncan Snidal adds

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<sup>77</sup> Most of the misperceptions about the issue of relative-gains among the neo-institutionalist school of thought arise from the fact that this latter assumes that realism underlines the quest for relative gains; instead states do not seek relative advantages but they care about them when evaluating their security, intended this one either as the minimal condition of survival or as the possibility to pursue broader but related interests. Grieco argues that states are 'defensive' from this point of view, meaning that they try to preserve their position and not to maximize it relatively to other states, see Grieco, 1988, p. 499-500. It is worth noticing, though, that also some realist pundits incur in this flaw: when Gowa states that "the more players seek relative advantage, the more difficult cooperation becomes" she highlights a different understanding of the argument Grieco is clarifying, see Joanne Gowa, 1986, p. 178.

<sup>78</sup> Joseph M. Grieco, "Anarchy and the Limits of Cooperation: a Realist Critique of the Newest Liberal Institutionalism", *International Organization*, 42, pp. 485-507.

<sup>79</sup> Robert Jervis, 1988, p. 335. In the same vein Joanne Gowa maintains that even in economic deals security externalities may enter the game and render cooperation more difficult to achieve, see Joanne Gowa, "Bipolarity, Multipolarity and Free Trade", *The American Political Science Review*", 83, 4, 1989, pp. 1245-1256.

that “whenever individuals seek status or victory, whenever they engage in contests or tournaments, and whenever goods are ‘positional’ in nature, relative gains are at stake”.<sup>80</sup> In accordance with these arguments the great powers of the Concert of Europe did agree not to increase the territory under their control, to gain commercial advantages or to have exclusive leverage that would have not been equally achieved by the other actors, so as to preserve their power positions.

In coordination games, for example, relative gains may not enter the stage once the decision to coordinate action is taken, but surely they take ground whenever the exact arrangement point should be decided: in this case the distributional impact of an agreement may impinge on a state relative position within the cooperative framework. Even neo-institutionalists would not deny that in coordination games with different preferred results relative gains assume a clear and apparent importance, a fact that was not apparent in the Prisoner’s dilemma. Of course, relative gains are another reason of the looseness of some coordination regimes: coordination situations require constant and recurrent bargaining processes to achieve determined setting, and relative gains inevitably play an important role on that.

When engaging in cooperation, therefore, states do question about the likely allocation of their gains; even in situations where both actors achieve huge absolute gains and where there is not the spectre of a war there is always the fear that the gain of the other can be used to increase this latter capabilities, “realists would argue that there are at least two additional sources of states concerns about relative gains: uncertainties about one’s partners and the efficacy of force, and fears about the non-military consequences of gaps in gains.... Realists would argue that international anarchy leads states to be concerned about gaps in gains from cooperation not just because they seek security and survival but also because they value their autonomy and independence”.<sup>81</sup> From this point of view, for Grieco a privileged partner could use its ‘nonmilitary’ augmented leverage to force more rewarding arrangements both in the issue area in which the gap arose as well as in others, “through a cumulative process of converting gaps in gains in one period into progressively better deals in later periods (but in which all would still gain in absolute terms) the advantaged partner might in

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<sup>80</sup> Duncan Snidal, “Relative Gains and the Pattern of International Cooperation”, *The American Political Science Review*, 85, 3, 1991, p. 701.

<sup>81</sup> Joseph M. Grieco, Robert Powell and Duncan Snidal, 1993, pp. 733-734.

time also become powerful enough to restrict (again through the application of non-military forms of influence) the capacity of the disadvantaged partners for independent choice and action in the domain in which cooperation is occurring and on other domains to which that domain is related".<sup>82</sup> Since anarchy is a permanent condition, every state is uncertain about the other future intentions and actions; therefore, a cooperation that assure greater gains to a state than those assured to another one should be carefully assessed.

John Matthews III specifies this argument by indicating precisely when relative gains are likely to be fundamental and may hinder cooperation both in economic and security field.<sup>83</sup> From this point of view he disconfirms that relative gains do matter only in security issues or in economic issues which can exhibit security externalities, but he does assume that even in pure economic issues relative gains deserve a paramount importance. The argument is that independently from the issue-area in question cooperation may be hindered when relative gains produce cumulative effects, that is, when they produce an initial advantage that permits to act more efficiently in future situations through an increase in the bargaining power. This point is relevant for

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<sup>82</sup> *Ibid.*, p. 734. These risks will impinge, according to Grieco, on their long-term independence and on their 'relative bargaining power' not only in military issues. This specification is addressed to Robert Powell analysis of the relevance of relative-gains on states' decision to cooperate. For Powell absolute gains are negatively affected when there is a potential threat of the use of force among partners that will therefore impact on states' military security: in this case relative gains will become of states' concern, "relative gains are significant not because a state's utility is a function of them-the states are still trying to maximize their absolute gains-but because the constraints imposed by the underlying technology of war makes it possible for a state to use its relative gains to its advantage and to the disadvantage of the other state"(the cost of war is low), p. 1312. Powell's attempt was at considering issues usually discussed in the structural realist realm: the possibility of the use of force while keeping the absolute-gain maximization assumption, so as to explain shifts in behaviour with different 'constraints' facing actors. See Robert Powell, "Absolute and Relative gains in International relations Theory", *The American Political Science Review*, 85, 4, 1991, pp. 1303-1320. Duncan Snidal states that relative gains concerns apply both to economy and security issues because economic gains can be muted in security ones in the long-run, see Duncan Snidal, 1991, p. 703.

<sup>83</sup> John C. Matthews III, "Current Gains and Future Outcomes: When Cumulative Relative Gains Matter", *International Security* 21, 1, 1996, pp. 112-146.

regime analysis since the possible benefits achievable out of a cooperative setting in one round of negotiations are likely to increase the structural power and therefore the bargaining stance in future contexts.

Of particular interest on this matter is the study conducted by Jonathan Tucker who shows how relative gains and the size of powers impinge on the likelihood of cooperation in high-technology industries. The author proposes a model where short-term welfare payoffs and longer-term positional payoffs are investigated in cooperative settings: the more the difference in capabilities between firms the lower the satisfaction of the stronger firms. Even if a certain amount of technology transfer does come about towards weaker firms no significant shifts in state's positional payoff arise, "the limiting factor is the stronger player, which will only collaborate voluntarily when its expected welfare benefits exceed its positional costs".<sup>84</sup> By contrast, when actors are more approximate as for capabilities, then welfare gains are amplified but the 'positional' cost increases endangering their relative stance. Accordingly, two opposite trends appear: welfare benefits from cooperation are really substantial when each of the actor has something to give and get back, that is, when all cooperating actors have substantial power; at the same time, a fruitful exchange among similar powers makes soar 'positional' concerns and this inevitably renders the bargaining struggle much more harsh. This middle-ground position among absolute and relative gains concerns provides useful insights by contextualizing the scenario according to the 'relative position' of the actors engaged in cooperative ventures.

Grieco's position about relative gains is relevant for the purpose of this research, and in fact states care about relative gains in coordination games because of the 'distributional conflict' at play, "if distribution is the primary relative gains problem, states can alter the terms of a cooperative agreement or offer side payments until the distribution of

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<sup>84</sup> Jonathan B. Tucker, "Partners and Rivals: A Model of International Collaboration in Advanced Technology", *International Organization*, 45, 1, 1991, p. 89. While Tucker's model rules out cooperation among equal partners (firms) the author specifies that as for states things are partly different for two reasons: first, defence or aerospace industries are somehow protected by national states and therefore never completely at bay of free market forces. Second, states may foster transnational cooperation even in keys strategic industries when this is conducive to the accomplishment of other foreign policy or domestic needs, see pp. 103-104. More to that, cooperation among equal is possible because of side-payments or opting-out provisions.

gains is sufficiently proportionate".<sup>85</sup> The idea of a distribution of gain calibrated on states' power suggests that if cooperation emerges it should be balanced: gains have not to impair states' relative positions as it was before the cooperating venture, "to attain this balanced relative achievement of gains, according to Hans Morgenthau, states offer their partners 'concessions'; in exchange, they expect to receive approximately equal 'compensations'".<sup>86</sup>

The introduction of relative gains within the utility function of states seems to be especially revealing, according to Grieco, when absolute gains derived from cooperation are not able to overshadow relative gains concerns. In the case of zero-sum games cooperation is pointless, but if both relative and absolute gains possibilities coexist, coordination depends on the context in which actors find themselves to play. Grieco explains how states' sensitivities to relative losses do vary with this formula:

$$U = V - K(W - V) \quad \bullet \text{ with } K \bullet 0$$

Where U is a state's utility, V is its absolute gains, W its partner's absolute gains and K a sensitivity coefficient to differences in pay-offs. This equation clearly states that the utility function is given by both absolute and relative gains. Grieco argues that even if a state cares about relative gains, the way in which K (that for the author is always positive) varies can limit relative gains concerns and therefore improve the possibilities for cooperation. The sensitivity coefficient is likely to decrease, according to Grieco, when: a cooperation partner is a long-term ally; partners share a common adversary; the gap in their power position is so huge that relative gain are not relevant; the state's relative power has not been on the decline; economic and not security issues are considered; payoff cannot be converted in capabilities that can be transferred to other issue areas. In practical terms, all the conditions stated by Grieco should somehow mitigate the 'security dilemma' among states.<sup>87</sup> The point to be remarked is, however, that cooperation is likely to arise even when relative gains concerns are stringent. As it

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<sup>85</sup> Duncan Snidal, 1991, p. 703.

<sup>86</sup> Joseph M. Grieco, 1988, p. 502.

<sup>87</sup> The fact that states can be engaged in an alliance or in what, Grieco pinpoints, is a pluralistic security community do assume a particular relevance in the K factor. A case in point is Gowa's analysis of security externalities that arise as a result of trade and that can be positively internalized within a military alliance, see Joanne Gowa and Edward D. Mansfield, "Power Politics and International Trade", *The American Political Science Review*, 87, 2, 1993, pp. 408-420.

will be demonstrated in this research, coordination does arise among actors even in a complicate issue such as security, and relative gains still account for the shape of the arrangements agreed.

When a mixture of relative and absolute gains are involved, a regime may help to downplay relative gains issues so as to reap the benefits of absolute ones: in most instances, the 'flexibility' of regime rules, especially in one characterized as a coordination game, permits to encompass the provision of *side-payments* to otherwise dissatisfied actors, practices of opting-out that allow actors not to participate in certain forms of cooperation if they do not want to, and voice-opportunities for the smallest ones. On this point of view Tucker, speaking of weapon systems production, emphasizes that a more powerful actor will request huge side-payments if the difference in capabilities is large (because it will achieve less advantageous economic returns), or if the difference in capabilities is small (because it should compensate for losses in positional terms): "a side-payment may consist of the following: the project leadership; a disproportionate share of the contract either in terms of development and production work or in terms of work on the high value-added components; a disproportionate share of the financial and technological benefits; or a combination of these".<sup>88</sup> In the same vein Keohane underlines that "international regimes therefore seem often to facilitate side-payments among actors within issue-areas covered by comprehensive regimes, since they bring together negotiators to consider a whole complex of issues" an important achievement this latter given that in normal politics side-payments are likely to increase transaction costs and therefore to hamper cooperation.<sup>89</sup> Indeed the fact that arrangements to partially correct 'relative gains' concerns are at hands does not mean that these are eliminated, "saying that relative-gains problems do not inhibit cooperation because states can ameliorate them through reforms or side-payments is equivalent to saying that cheating problems do not inhibit cooperation because states can resolve them by establishing verification and sanctioning arrangements";<sup>90</sup> what is apparent, though, is that cooperation is still possible when relative concerns do matter, a fact this latter that even Grieco's was lately ready to recognize.

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<sup>88</sup> Jonathan B Tucker, 1991, p. 100. A side-payment results, in this case, when there is a different allocation of work-share compared to the one that should have arisen out of the financial contribution to the cooperative project.

<sup>89</sup> Robert O. Keohane, 1982, p. 340.

<sup>90</sup> Joseph M. Grieco, Robert Powell and Duncan Snidal, 1993, p. 731.



As seen, side-payments can partially correct relative gains concerns and therefore cooperation may lead to the achievement of gains. Another scenario where relative gains concerns may arise is when keeping outside of a cooperative setting; in this case 'relative losses' may appear. As Snidal correctly points out following Grieco's statements, states are 'defensive positionalist', that is, states are worried first of all to preserve their relative position within the system. In the case in which a state decides not to cooperate while other and maybe powerful actors decide instead to coordinate their actions, then the relative gains achieved by the others will impinge negatively on the first state's relative position: in this case relative gains concerns may well invite cooperation in order to preserve one's position, a 'defensive cooperation'.<sup>91</sup> That states are not 'rational egoists' means also that they should monitor others' potential alternatives for cooperation, especially if an actor decides not to coordinate its actions. This argument will assume a paramount importance in the empirical analysis of defence procurement where it will be shown how 'defensive cooperation' as a strategy entered time and again in states' utility calculus.

### 1.6.2 Short term and long term interests

In our consideration of "who gains what" the issue of short term and long term interests deserves a special attention. The reason for this is quite simple: states that engage in international regimes struggle for achieving their interests conceived only at a minimum extent in the short and most likely in the long run. It is possible to say that each state has what Glenn Snyder refers to as 'general' interests that "stem from the anarchic structure of the system and the geographic position of the state": because these interests embody power and security substance states will not compromise them. Instead 'particular' interests are those which spur disputes or underline commonalities among states.<sup>92</sup> While coordination regimes help directly achieve these latter they also contribute in a significant way to the attainment of the formers by preserving or increasing states' relative position.

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<sup>91</sup> Duncan Snidal, 1991, p. 85. Grieco explains that "states seek to prevent increases in others' relative capabilities. As a result, states always assess their performance in any relationship in terms of the performance of others", see Joseph M. Grieco, 1988, p. 499.

<sup>92</sup> Glenn H. Snyder, 1984, p. 464.

That states have different interests is apparent and that these interests are determined by their power is also assessed. Nevertheless, as Krasner explains, regimes can be a source of power themselves, both for powerful and for less powerful states.<sup>93</sup> This is so because regimes can be considered useful in managing 'distributional problems'. In accordance with Fearon's argument, regimes are 'forums' much more than entities monitoring enforcement and compliance: "focal points and principles can be decisive in the resolution of distributional conflict in bargaining".<sup>94</sup> The idea of regimes as 'forum of communication' is particularly relevant in coordination-like situations because, given the fact that more equilibrium points can exist communication assures that Pareto-optimal outcomes are going to be achieved.<sup>95</sup>

For a powerful state a regime often helps pursue own interests because of its capacity to mould its structure: this can be proven by the fact that most of the regimes have been created by powerful states. This consideration is also assessed by the neo-institutionalist school of thought, that pacifically asserts that the creation (but not the maintenance) of regimes has been determined either by snapshot and substantial structural mutations or by the incipit of an hegemonic power.<sup>96</sup> In his powerful critic to the "public" nature of the goods provided by the Hegemonic Actor, Duncan Snidal underlines the possible emergence of a regime out of the collective action of similarly powerful states, "while the hegemonic role of the United States may have been instrumental to the success of NATO, numerous historical examples illustrate the possibility of collective actions among more equal-sized states".<sup>97</sup> This is so because these are supposed to provide a significant but balanced contribution to the regime. Against this background, a regime helps maintain a position of power. This argument has been sustained also by John Ikenberry, who in his book

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<sup>93</sup> Stephen Krasner, 1991, p. 25 .

<sup>94</sup> Thomas Schelling, cited in James D. Fearon, 1998, p. 298.

<sup>95</sup> See on this point Charles Lipson, 1984, pp. 11-12.

<sup>96</sup> This reasoning partly confirms the basic assumptions of the hegemonic stability theory as for the "supply" of regimes. As seen, in fact, while neo-institutionalists can say why a regime will be created thanks to their functional approach, they are not able to forecast when or how a regime will be provided: to answer these questions they rely on power as explanatory variable.

<sup>97</sup> Duncan Snidal, "The Limits of Hegemonic Stability Theory", *International Organization*, 39, 4, 1985, p. 596.

"*After Victory*"<sup>98</sup> explains how the United States has been able to maintain his position of power through the use of institutions. The idea is that a powerful state has incentives to create institutions when it finds itself in a position of force because it is able to shape the way in which the institutions are established. It will search to tailor the institution so as to represent and promote its main interests. A state is keen to freeze his position of power by proactively participate in the formulation of principles, norms rules and the decision-making procedures composing a regime.

Second, a regime helps a powerful state to control and limit the power of other states, another long term interest deeply treated in alliance literature.<sup>99</sup> Regimes have often been created among strong states or with states on the ascendance of their power. Coordination with them helps avoid the pursuit of autonomous decisions that could impinge on the first state's position (economic or military). Engaging powerful states in distributional conflicts means limiting the achievement of their preferred outcomes: accordingly, the Concert of Europe, "served as an arena for the exercise of influence, constrained bargaining strategies, facilitated side-payments, enabled signalling, enhanced predictability, and specified obligations guiding state action."<sup>100</sup> Thus, even alliances, which are seen as coordination games, should sometimes be interpreted as way to gain "conformity" and influence of an ally's action, "among equals we will finally observe a latent but constant struggle among the two parts, each one attempting to convince the

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<sup>98</sup> John G. Ikenberry, *After Victory: Institutions, Strategic Restraint and the Rebuilding of Order after Major Wars*, Princeton, Princeton University Press, 2001.

<sup>99</sup> See James D. Morrow, "Alliances and Asymmetry: an Alternative to the Capability Aggregation Model", *American Journal of Political Science* 35, 1991, pp. 904-934 and Paul W. Schroeder, "Alliances, 1815-1945: Weapons of Power and Tools of Management", in Klaus Knorr, ed., *Historical Dimensions of National Security*, University of Kansas Press, 1976, pp. 227-262. This consideration is emphasized in Haftendorn, Keohane and Wallander' edited book (1999) which time and again defines security institutions as security management structures. In particular, the authors use a dimension for their typology of security institutions called "inclusivity" according to the involvement of states posing risks or threats. If in situations posing threats coalition tend to be exclusive by not comprising the menacing actor (i.e. alliances), those involving risks tend to form inclusive coalitions so as to favour transparency and the exchange of information among members, see p. 26.

<sup>100</sup> Louise Richardson, 1999, p. 57.

other to support it in those judged the most important objectives".<sup>101</sup> Each state is likely to struggle for his own position: especially among great powers the likely end result is a compromise position that allows to control the gains of the other and limit his influence as well as to get something valuable back. In this case the role of a regime is that of a mediator between the power and the concomitant interests of the states on the outcome in the issue-area.<sup>102</sup>

Third, powerful states can advance their interests through a regime by the power of "agenda setting", and by deciding the number of state that can play, the rules for those who want to enter and the issues to confer priority to: in the congresses making part of the Concert of Europe weaker actors were also included but "there was never any doubt as to where power resided".<sup>103</sup> Ultimately, the most important interest is the aversion shared by all states to uncoordinated actions.

All this said about powerful states what is left of the pie for weak states? What are less powerful states likely to gain? When considering Krasner's argument it has been said that powerful states are likely to gain more, but also that regimes are a dynamic "distributional conflict", in which states engage in continuous struggles to advance their interests. Therefore, a regime seems to be a potential opportunity to gain power and advance interests for all states. First of all, less powerful states while having low probabilities to provide a regime are likely to struggle to participate in it. They gain a position inside of the regime, they gain a vote, a seat, an opportunity to make their presence count. The regime is not likely to reflect their interests at the very beginning, but if their presence is increased within it, then it is impossible for powerful states to avoid listening to their concerns.

Lots of scholars have pointed out that less-powerful states gain a "voice-opportunity" within a regime, a possibility that they could not have achieved from the outside. Deriving from Hirschman's observations, Grieco points out the importance of the 'voice' as a factor spurring cooperation among actors, "effective 'voice opportunities' may be defined as institutional characteristics whereby the views of partners (including relatively weaker partners) are not just expressed but reliably have a material impact on the operations of the

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<sup>101</sup> Marco Cesa, *Alleati ma rivali. Teoria delle alleanze e politica estera settecentesca*, Il Mulino, Bologna, 2007, p. 70.

<sup>102</sup> Stephen Krasner, cited in Hasenclever et al., 1997, p. 108 .

<sup>103</sup> Louise Richardson, 1999, p. 69.

collaborative arrangement".<sup>104</sup> Obviously, for this to happen it is necessary that a regime provides a free-entry for all states, and this depends strongly on the issue area concerned and on the necessity of weak states participation into the cooperative game to bring about concrete results. In particular fields, the participation of less powerful states is more likely, since the coordination of a lot of states is necessary to avoid particular outcomes: this happens, for example, in the Non-Proliferation regime, where the nuclear component is somehow able to downgrade significant differences in capabilities among states. In other issue-areas, such as in security matters, it is difficult to hazard any forecast. Second, less powerful states can profit from disagreements among powerful states and advance their positions, by supporting one of them or by mediating between them. While a powerful state is not likely to bandwagon with another powerful state, weak states can use this tool to achieve rewards. Finally, in the same vein as powerful states, less powerful ones achieve the benefit of avoiding unilateral actions in the issue-area.

## 1.7 Theoretical tools for the empirical research

The aim of this section is to provide the reader with a synthesis of the observations emerged in the theoretical debate above and that will be recuperated and employed for the structuring and the development of the research.

In analysing the debate about regimes among different schools of thought the cognitivist approach resulted as the one more prone to envision cooperation among European states: for the sake of our research it will be therefore interesting to see how difficult it has been or still is to create a pattern conducive to cooperation in defence procurement among European states, and which are the main reasons for cooperation. If forms of coordination among states have been reached it will be paramount to consider the degree of institutionalization of these latter and the steps forward undertaken in harmonizing European states' national procurement practices.

As abovementioned, while the 'security dilemma' condition is to date mitigated and re-moulded through the lenses of the post Cold War

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<sup>104</sup> Joseph M. Grieco, "State Interests and Institutional Rule Trajectories: A Neorealist Interpretation of the Maastricht Treaty and European Economic and Monetary Union", in Benjamin Frankel, ed., *Realism: Restatements and Renewal*, Frank Cass, 1996, London, p. 288.

scenario, security matters still pose challenges to states' attempts at cooperation: states are reluctant to bind themselves and rely on common norms and practices if this rules out their freedom of action or downplays their power position. Nevertheless, it has also been emphasized that coordination games, as defence procurement is supposed to be, require less from states for their creation, the only basic condition being to avoid unilateral actions. Also, while participation within a regime may limit a state's action the institutional framework is likely to constrain also other participating states' behaviours: if this is true we should find out in states' decision to participate within the regime the willingness to monitor other states' behaviours.

The representation of defence procurement as a coordination game is not a novelty: weaponry standardization has traditionally been conceived in this vein, as a problem of how to choose the capabilities required and then how to procure them. Cooperation on defence procurement among European states means that these latter recognize the need for a more coordinated path in acquisition and management of weapon systems because of economic, industrial and strategic pressures. However, agreement on avoiding unilateral paths overlooks all the possible and alternatives cooperation arrangements each of the actors is going to advance: the research should therefore consider if 'distributional' issues have emerged and the impact they have had on the working of cooperation. Also, the research should focus on whether 'defection' has resulted and whether the cause of this latter was the willingness to achieve higher benefits or dissatisfaction with the cooperative point agreed upon.

As we have seen in the case of the Concert of Europe and in the Non-Proliferation Treaty, the coordinated actions of the most powerful states were paramount to create the regime; this should not come as a surprise because in both security cases the structural power of the actors were the basic conditions for a credible arrangement. If this is true, we should expect that in the case of defence procurement essential have been the actions undertaken by the most powerful European states to give birth to the regime and to mould it: coordination among them should be relevant because of the possibility of a significant exchange, while their reduced number should ease the bargaining process and lower transaction costs. In fact, as Stein points out, "unlike PD where asymmetries sometimes favour smaller and less influential

states, in coordination asymmetries favour larger and more influential states”.<sup>105</sup>

Nonetheless, and as recalled, because of a similar amount of structural power these states are likely to strive hard to achieve their preferred position so as to maintain or increase their relative power and pursue their long-term interests. Given their similar power the result coming out of the bargaining process should be a compromise about states’ positions: the idea of a distribution of gains calibrated on states’ power suggests that if cooperation emerges it should be balanced so as to maintain each states’ position. We have seen that this is possible whenever a mix of absolute and relative concerns are involved in coordination games: regimes in fact, through side-payments and opting out options, allows the degree of flexibility necessary not to impair cooperation and to increase the benefits of joint actions. It will be important to examine, therefore, if the regime on defence procurement attempts at keeping a balanced cooperation among states and an high degree of flexibility through side-payments and opting-out clauses.

By assessing the power structure of the states, the strategic options at hands and the result of the bargaining process we should be able to weigh up whether relative gains did matter in cooperation and if the strategy of coordination was sound to the achievement of their interests.

Cooperation has been said to be not only a strategy to achieve more gains but also a strategy to monitor other states’ actions: in this sense, to participate avoids the potential drawbacks of keeping outside of a cooperative setting. In the case in which an actor is not deemed as paramount to the achievement of cooperation and where therefore coordination goes ahead without that state’s participation, this latter is likely to loose relative power and gains. ‘Defensive cooperation’ is therefore but another strategy to preserve the own power position: this is much more important in the field of defence procurement where security and economic objectives mingle together. In order to substantiate this reasoning it should be investigated whether ‘defensive cooperation’ was one of the strategies adopted by states in the defence procurement regime to keep their power position and bargain with other actors on an equal footing .

Issues such as the ‘reiteration’ of the game, often promoted by the neo-institutionalist school of thought, should only deepen the struggle for the better outcome, creating delays and postponements as the

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<sup>105</sup> Duncan Snidal, 1985, p. 935

distribution of gain in one cooperative round (improvement of the industrial base, technological and know-how expertise, etc.) will impinge on future state's bargaining power. By the same token, 'reputation' should lose some of its normative power: of course it should account for a state's reliability. Reputation, though, increases its monitoring power proportionally to the alternative strategies available: in Europe only a small number of states have the amount of military might and industrial potential sufficient to be a credible partner. A look should be paid, therefore, on the weight of 'reputation' on cooperation choices; it should be assessed whether this parameter or instead the structural power of a state was decisive for cooperative decisions.

Structural power on security issues determines relationships also with weaker states: if, with Krasner, power can be used to determine who can play the game in the first place, to dictate the rules of the game and to change the payoff matrix, the defence procurement regime could result as an 'exclusive club'. Accordingly, it will be necessary to see the role weaker European states do play in this context and whether they participate in the regime and benefit of votes and voices opportunities. It goes without saying that in the case of a broad and mixed regime either the powerful states drive the game or the regime is just a minimal and general consent among different-sized and endowed states, with no binding rules and no actual intervening power.

## **1.8 Conclusion**

The aim of this chapter was to provide a theoretical background for the analysis of the defence procurement regime among European states. The main issue this research project attempts at answering is the reason driving states to cooperate on the acquisition and management of weapon systems, and the main thesis is that states try to coordinate their actions because unilateral actions are neither possible nor rewarding for them. The challenge that this statement poses on traditional studies on regimes is twofold: the first one is mainly addressed to the realist school of thought, since coordination on defence procurement represents a case of cooperation on security matters that rules out alliance dynamics. The second one is to the functionalist theory of regimes, since cooperation in this subject matter cannot be explained by Prisoner's dilemma-like situations. This theoretical part has therefore tried to clarify the concepts to be used in the empirical one and, together with the next chapter, will explain the



rationale for cooperation and the challenges this latter is likely to bring about.

The very first step of this chapter has been to present the literature on international regimes, emphasizing the sociological and the rationalist approaches: the sociological approach, or cognitivism, has presented regimes not as effective efforts undertaken by states to achieve defined interests, but rather as the product and the result of social institutions and shared identities. It has stressed the role and the power of ideas, communication, persuasion and discourse in changing states interests towards more cooperative behaviours. Notwithstanding some positive insights, this approach falls short of explaining the rationale for cooperation and poorly matches with empirical studies that time and again show that regimes do not mirror social institutions but compromises and bargaining among different interests. Instead, rationalist approaches emphasize the relevance of regimes -and therefore of cooperation- as 'strategies' to attain defined interests.

While during the Cold War the Hegemonic Stability Theory was appropriate to explain cooperative dynamics, the decline of the hegemon (the United States) and the demise of the Soviet Union have called attention to the neo-institutionalist school of thought: this latter underlined regimes importance in fostering cooperation among states because of their ability to mitigate double-crossing temptations. The Prisoner's dilemma game was able to show, according to this theory, the real problem of cooperation among states: cheating. Contrary to this statement, various pundits from different schools of thought have underlined that cooperation dynamics change according to the structural situation in which actors find themselves to play, and this opens the way to new and more realistic cooperation dilemmas.

Security as an issue area has always been interpreted as hostile to cooperative attempts: this has been motivated by the structural configuration of the international system (anarchy) and the consequential 'security dilemma' arising from it. Notwithstanding this permanent condition, regimes have emerged even among rival powers, such as in the case of the Concert of Europe and the Nuclear Non-Proliferation regime, as a demonstration of the fact that states can mitigate their security concerns when coordinated actions are likely to bring about fundamental benefits. While the defence procurement regime regards a security matter it does not question the very 'survival' of the actors involved: instead, security is correctly intended more in general as the possibility to pursue basic interests: prestige, independence, economic well-being. Moreover the regime of our

concern exists within the frame of the European Union and of the Atlantic Alliance, so that fundamental threats are somehow ruled out. The chapter has shown that what should be kept of traditional security matters is the fundamental role that power can have in situations when different interests are brought to the negotiating table. This is the case of regimes that, as in our case, reflect coordination games dynamics: while actors do agree to avoid unilateral actions they propose different arrangements points. If 'coordination' as a game is conceived by all schools of thought, different have been the tools proposed to face distributional conflict: for some authors the role of ideas and focal points are paramount on this account, but which ideas are going to prevail? Also, the role of persuasion and communication are said to foster agreements, but on some situations effective communication is not an option and coercive moves seem to force determined settings: all these considerations explain the importance of power in bargaining and structuring the regime.

One of the traditional concerns of security issues, relative gains, maintains its importance for our purposes. Relative gains were not a problem for the neo-institutionalist school, since the main impediment towards cooperation was cheating. In coordination games relative gains concerns do not hamper directly cooperation but do arise when distributional conflicts come about: defection, or more likely, the threat of it, should not be interpreted as an attempt at double-crossing the other actor but at showing dissatisfaction with the arrangement point achieved.

What this chapter wants to stress is that a regime, and in our case a coordination one, is but another strategy that states can use to pursue their fundamental interests when they are not able to do that otherwise: a security coordination regime can help preserve or increase own power position and control and limit the power of other actors. Also, it can confer some purposeful role for weaker states if they are 'invited' to participate in it. The next chapter will focus on the consequences of unilateral actions on defence procurement matters given the actual pressures (economic, industrial and strategic) facing all European states. It will then investigate the outcome that all actors agree to eschew and the rationale for coordination.

# Chapter 2

## Defence procurement: setting the stage

### 2.1 Introduction

After having considered the ‘security’ nature of the defence procurement practice and outlined all the challenges this issue area is likely to bring about among actors searching coordination, this chapter will provide an in-depth outlook of the defence procurement process. Before considering the reasons driving states to coordinate their actions, it is paramount to understand the working as well as the implications of the process under analysis: therefore, the first three sections will deal with the peculiarities of acquisition and management of defence systems.

One of the main blunders made by scholars in the International Relations field is to label ‘security concerns’ only those situations where the survival of a state is at risk; instead, and as seen in the theoretical part, the meaning of security is so broad as to encompass various concerns, from a state’s prestige and influence to its economic well-being. This permits to consider other various scenarios as ‘security contexts’ and at the same to perceive the challenges that this latter is likely to display. According to this argument defence procurement represents a ‘security’ issue and this is underlined in the first section of this chapter, that tries to explain why this process has been interpreted historically as a ‘national domain’ concern and has seen an active role by national states in directing or ignoring economic forces. The analysis of the phases constituting the life-cycle of the procurement process will highlight the differences existing between a traditional market and a defence one: there seems to be space only for militarily powerful actors in this process and this will apparently impinge on cooperative dynamics. The third section of this chapter will address directly the issue of cooperation in defence procurement. The aim is not to provide an all-encompassing historical background of past cooperation efforts,

but to underline how powerful actors have maintained the key of defence procurement by force of their relative power; how different procurement modalities were chosen with allies to keep a certain amount of power; how cooperation was searched to pursue other interests; how distributional issues rendered inefficient cooperative dynamics.

If cooperative attempts in the past led to inefficient arrangements it is to be seen if, to-date, different and more compelling incentives are limiting states' options on defence procurement and making coordination the best outcome to pursue. To evaluate this possibility economic, industrial and political-strategic pressures will be taken into account. Because of reduced budgets for defence but increased costs for weapons systems, states should optimise the resources to work with: in this sense, cooperation can substitute a yet impossible unilateral management of defence procurement by dividing costs among participant states.

Also, defence industries have been protagonists of consolidation (at the national level) and horizontal integration (with other European actors) processes: in fact, due to increased unit production costs and to sophisticated technological systems, defence industries felt compelled to join their activities to augment their productive capacity and reduce costs. Therefore, from the supply-side of defence procurement the context is ripe for more fruitful and efficient cooperative processes. Finally, political and strategic interests are pushing toward coordinated actions. The changed international context has inevitably requested a deep re-thing of each state's position within the new scenario and the strategies more likely to preserve or strengthen that position. In particular, the demise of the Soviet Union has unleashed divergent interests and priorities within the Atlantic Alliance, among which the quest for an independent European defence stance. In order to absolve this task two problems need to be faced, the first one referring to the huge military gap and therefore dependence from the Atlantic Ally, and the second one requesting a political willingness to harmonize requirements and procure jointly armaments so as to develop a truly autonomous military-might and a consistent defence policy.

All these economic, industrial and political-strategic pressures are inducing states to coordinate their actions. Because of these incentives, states believe that a purely national procurement is neither convenient nor possible. If states were able to manage defence programmes by themselves, then the need to coordinate their actions or to do that continuously would not have existed. That said, states are still able to

pursue the strategies they deem appropriate for them, especially if they are powerful enough to have more strategic options at hands. The way in which cooperation has been effectively handled in defence procurement will be the argument of the next chapter.

## **2.2 Security priorities and economic peculiarities: the importance of a dialogue among issue-areas**

Issues concerning security have always constituted a paramount national interest for states. In the case of our concern, acquisition and management of weapons systems, states have been reluctant to engage in patterns of cooperation with other actors and have searched, as much as possible, to keep procurement outside of other cooperation processes, "arms procurement is a subject of particular interest to students of European integration since in the Treaty of Rome it was specified as an area of government activity exempt from Community competence".<sup>106</sup> In this particular area the 'spill-over' effect that often accompanied European cooperation efforts seemed not to apply. A profit maximizing reasoning would say that there is no difference between civil and defence markets: the incentives operating in the first one would do the same in the defence market. Nevertheless, when it comes to this issue, it is apparent that the utility curve of a state does not consider 'efficiency' as the utmost objective to be pursued, but it comprises also other important elements: sovereignty, power, prestige, independence and economic well-being.

Security should not be conceived as the likelihood of survival, which in our case is not in question, but as the probability of being able to pledge and protect other fundamental interests, "national security concerns arise when vital national values (i.e. core values) are perceived as being threatened by adverse foreign actions or events. What is regarded as 'vital' is a matter of subjective judgment depending on a nation's hierarchy of values".<sup>107</sup> As Sandler and Hartley

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<sup>106</sup> Trevor Taylor, "Arms Procurement" in Anand Menon and Joylon Howorth, ed., *The European Union and National Defence Policy*, Routledge, London and New York, 1997, p. 121.

<sup>107</sup> Klaus Knorr, "Economic Interdependence and National Security", in Klaus Knorr and Frank N. Trager, eds., *Economic Issues and National Security*, University Press of Kansas, Kansas, 1977, p. 8.

point out, the maintenance of a defence and industrial base (DIB)<sup>108</sup> produces benefits such as the preservation of national independence; the security of supply and responsiveness in emergencies and war; the maintenance of a capability which a nation can use in the future; the possibility to avoid monopoly prices from the foreign supply; the option to avoid being equipped with weapon systems not tailored on the nation's exigencies; the opportunity to increase influence by rising bargaining power when considering buying from abroad and the possibility to provide national economic benefits.<sup>109</sup> According to these arguments, the ability to preserve a sound and efficient defence industrial base is an asset a nation should be endowed with if it aspires at meeting its interests and driving its policies in a way conducive to its strategic priorities: "the more a nation's procurement policies ignore the connection between national security policy and the DIB, the more it risks destroying long-term value derived from the programmes it has funded in the past and the more it limits its ability to develop a truly independent security policy in the future".<sup>110</sup>

In the long-run, the end-objective of the strengthening of the own industrial base, and therefore of the capability to meet own operational requirements is, among others, to achieve a degree of independence apt to freed the state from external pressures, "depending upon foreign sources for military products has always been perceived as a greater threat to the national security than parochial legislation, gold plated military specification, revolving doors, or contract irregularities".<sup>111</sup> Also, aside from outer interference, the preservation of a national capability helps the overall development of the country and the pursuit of foreign policy objectives, "the defence industrial base is commonly thought to contribute to national security in two ways. The first is in the area of high technology...and the second is by supplying the

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<sup>108</sup> The Defence Industrial Base can be defined as "the aggregate ability to provide the manufacturing, production, technology, research, development, and resources necessary to produce the materiel for the common defence", see Center for Strategic and International Studies, "Deterrence in Decay: the Future of the US Defense Industrial base", Washington DC, 1989, p. 11.

<sup>109</sup> Todd Sandler and Keith Hartley, "Defence and the Industrial Base", in *The Economics of Defence*, Cambridge University Press, 1995, pp. 185-186.

<sup>110</sup> "The Defence Industry in the 21<sup>st</sup> Century: Thinking Global...or Thinking American?", PriceWaterHouseCoopers, p. 21.  
[www.pwc.co.uk/eng/industries/industry\\_publications.html](http://www.pwc.co.uk/eng/industries/industry_publications.html)

<sup>111</sup> James F. Miskel, *Buying Trouble: National Security and Reliance on Foreign Industry*, University Press of America, Lanham, 1993, p. 7.

weapons, ammunition, equipment and other supplies that our military forces need to function in peace and war".<sup>112</sup> High technology development is paramount not only for the military field but for the civil industry as well: improvements on this sector would therefore positively impinge on the country's overall competitiveness. The capability of supplying arms provides not only the opportunity to face war but also to gain influence in peace.

This stated, it is apparent that diverse states have worked out different strategies to manage the procurement of defence systems according to their power and related interests: more powerful states, better endowed with technological and productive capacity, have searched to preserve as much as possible their independence in the procurement process, to monitor the different phases of collaboration projects or to transfer arms as a way to obtain diplomatic leverage on other states. Notwithstanding that, it should be noticed that even the strongest states, such as the United States, which are able to produce by themselves the bulk of the national defence requirements, are subject to forms of dependence from other weaker actors that cause vulnerability. This is for example the case of military sales or foreign subcontracting practices where a state can be hurt by the decision of a potential importer not to purchase its system and therefore to spoil a potential long-term relation. By the same token, some level of technological transfer embodied in a subcontract process may increase the capabilities of a weaker state. As Murdock explains, the effective(actual) vulnerability of the importing country will depend not only on its level of foreign dependence, but also on the dependence of the supplier state towards its exports.<sup>113</sup>

As aforementioned, the acquisition and management of weapon systems is a security concern because of two reasons: first of all the practice regards the production of destructive resources and second, defence procurement is likely to touch interests deemed fundamental aside from survival. Notwithstanding its security nature, the issue area we are dealing with does exhibit some important economic insights that help characterize its peculiarities. More to that, economic and security aspects do often relate in this subject-matter, so that a joint

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<sup>112</sup> *Ibid.*, p. 19.

<sup>113</sup> Clark A. Murdock, "Economic Factors as Objects of Security: Economics, Security and Vulnerability", in Klaus Knorr and Frank N. Trager, eds., 1977, p. 79.

study of their implications would clarify their impact and mutual influence.

While some authors do recognize the connections existing between security and economics in this field some others do reject this possibility or simply do not see the way in which these connections can foster a complete and consistent study of the topic. Indeed, according to some pundits, economic and security issues should be kept separate because respond to different dynamics and questions. Security issues are the realm of power and are determined by it, while economic issues are fostered by market logics and power does not enter the game. Because of these considerations, as Moran points out, “the dialogue between economist and national security analysts has tended to be limited, unproductive, and highly unsatisfactory to both sides”.<sup>114</sup> The author states that aside from industrial policy advocates and strategic trade theorists, economists think that the nationality of producers is not important and that competition should be the only criterion leading industrial strategies. Also, they maintain that the protection of the industrial base and a closure towards outer influences lead to inefficiencies. What should be remembered, though, is that the armament market, is political by its very nature; free-market answers are important but thus ultimately unsatisfying.<sup>115</sup>

The relations existing between security and economics are especially recognized by those who confer to the national state a remarkable control over capabilities, “political realism sees a powerful role for the state in the national and international economics. States’ intervention in the domestic economy is required in order to achieve autonomy and superiority in defence, and in the international economy a hegemon is required to achieve cooperative commercial relations”.<sup>116</sup> For these reasons defence capabilities do inevitably fall within a state’s domain, since “the world’s defence industries sit on the cusp of economic and national security”.<sup>117</sup> For the mercantilist school of thought, economy and security were linked in two ways: first of all because of the potential use of the economic power to influence the behaviour of an

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<sup>114</sup> Theodore H. Moran, “The Globalization of America’s Defense Industries, Managing the Threat of Foreign Dependence”, *International Security*, Summer 1990, p. 57.

<sup>115</sup> Ethan B. Kapstein, *The Political Economy of National Security: a Global Perspective*, McGraw-Hill, Harvard University, New York, 1992, 128.

<sup>116</sup> *Ibid.*, p. 5.

<sup>117</sup> Ethan B. Kapstein, “International Collaboration in Armaments Production: A Second-Best Solution”, *Political Science Quarterly*, 106, 4, 1991-92, p. 658.



actor lacking and needing a particular resource. Second, as the economic base of military power. For both reasons economic matters are far too an important determinant of national security not to be geared by governments.<sup>118</sup>

The relevance of the economic power for a state's stance is even more highlighted in the case of defence procurement, where industrial and technological capabilities impinge positively and substantially on states' pursuit of interests, "there is no reason why economic values and particular patterns of economic life cannot be regarded as vital. Once these values are perceived as being vulnerable to external events, they naturally inspire security concerns and the desire to minimize these concerns".<sup>119</sup> By converse, an exclusive economic-centered analysis of weapons procurement is likely to overshadow deep and significant security consequences: as William Walker and Philip Gummet point out, the challenges which are now present are too deep and menacing to think about procurement only in economic terms.<sup>120</sup> The authors emphasize that notwithstanding its strong pressures, globalization can determine both integration and fragmentation of defence procurement practices, "economic and technological forces are driving it towards greater internationalisation, but it is simultaneously being constrained by demands that it should serve local interests and sentiments, and that the international diffusion of its product and technologies should be more tightly constrained".<sup>121</sup> Some kind of economic protection is therefore a shield not only against foreign industries but also against foreign strategic dominance: the most relevant European concern is that the United States can prevail in a potentially free transatlantic defence market thanks to its technological leadership.

For all these reasons new study approaches have searched to handle this multi-faceted topic. Among these prevail those that starting from an economic emphasis recognize the peculiarities of the issue-area, and those that point more directly to the basic security and power implications subsumed within it. In the first case a discipline called 'defence economics' stresses that every process of cooperation or failed

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<sup>118</sup> Clark A. Murdock, 1977, pp. 70-71.

<sup>119</sup> Klaus Knorr, "Economic Interdependence and National Security", in Klaus Knorr and Frank N. Trager, eds., 1977, p. 8.

<sup>120</sup> William Walker and Philip Gummet, "Nationalism, Internationalism and the European Defence Market", *Chaillot Paper* 9, September 1993, p. 3.

<sup>121</sup> *Ibid.*, p. 3.

coordination in this field entails inevitably a cost-benefit analysis. Keith Hartley says that defence economics implies difficult choices in an uncertain world: because of declining budgets for defence and because of rising unit costs, a state should think the better way through which to combine economic with security imperatives.<sup>122</sup>

In the second case, strategic trade scholars<sup>123</sup> and security analysts focus on the fears of foreign dependence and influence and on the importance of monitoring and driving the weapons procurement “dependence on foreign corporations whose key operations take place outside national borders opens up a real threat of interference on the part of their home country governments...the dangers to sovereignty and national security may come suddenly and without warning, even when firms are controlled by allies”.<sup>124</sup> One of the strategies to thwart a complete foreign dependence is to diversify the degree of dependence, an operation, Moran stresses, that is not always the product of a free market strategy.

According to the pundits who underpin the strategic trade argument, high-tech sectors of industries, characterized by economies of scale, should be protected so as to gain a big share of the marketplace: “doing well requires staying at the forefront of developing and commercializing new technologies and maintaining a capacity to manufacture and market the products of scientific progress”.<sup>125</sup> It should not be forgotten that one of the first arguments in favour of strategic trade protection was made thinking about the aircraft industry, where barriers to entry exist because of huge capital and R&D investments needed to get a substantial return. The subsidization of this industry (Airbus) by the French and German Governments was to be interpreted through a defined European lens: competition in this case was with the United States, while within the European context no other contender existed in this kind of production. Although it is clear

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<sup>122</sup> Keith Hartley, “Defence Economics and the Industrial Base”, Centre for Defence Economics, University of York, England.

[www.york.ac.uk/depts/econ/documents/research/pauwels.pdf](http://www.york.ac.uk/depts/econ/documents/research/pauwels.pdf)

<sup>123</sup> For Libicki an industry is strategic whenever it fosters the systematic application of knowledge to generate more and better output out of inputs, see Martin C. Libicki, “What Makes Industry Strategic”, *Mc Nair Papers* 5, The Institute for National Strategic Studies, National Defense University, Washington DC, October 1990.

<sup>124</sup> Theodore H. Moran, 1990, p. 61.

<sup>125</sup> Aaron L. Friedberg, “The Changing Relationship between Economic and National Security”, *Political Science Quarterly*, 106, 2, Summer 1991, p. 275.

that subsidization of an industry does protect fundamental internal interests (jobs, the own industry, development of technologies) even Barbara Spencer, one of the most firm supporter of the argument, admits that it is not clear whether final economic success will make up for the initial subsidization.<sup>126</sup> To-date, these arguments have theoretically lost some ground because of the difficulties emerged in finding these 'strategic' sectors and defining the appropriate level of protection necessary to gain a substantial share of the marketplace.<sup>127</sup> Empirically, though, defence industries protection is alive and well. This section has shown that weapons procurement processes do foster security concerns related to the pursuit of fundamental interest that would keep and possibly improve a state's position within the system. While a security matter, weapons acquisition and management cannot but invite attention to economic dynamics that characterize this issue-area: these latter help clarify the setting in which the procurement process takes place, its modalities and its constraints, but highlight also the opportunities that economic power can confer to a state's security. As Schmitt makes clear, this is an in-between issue-area and therefore contradictions are inevitable but particularly apparent: "technological, financial and economic considerations drive companies in the direction of globalization defence is still a national matter".<sup>128</sup> The objective of the following section will be to present the nature of the procurement process before discussing cooperation dynamics.

### 2.3 The procurement process and strategies

After having seen the relation occurring between economics and security in the weapons procurement issue-area, the following section will take into consideration the procurement process and its importance amid a state's overall strategy.

Defence procurement regards the acquisition and management of weapon systems by statal or *ad hoc* agencies: in particular, "defence

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<sup>126</sup> Barbara J. Spencer, "What Should Trade Policy Target?", in Paul R. Krugman, eds., *Strategic Trade Policy and the New International Economics*, The MIT Press, Cambridge, 1988, pp. 69-89. In the same book see also James A. Brander and Gene M. Grossman.

<sup>127</sup> For a detailed argument about Strategic Trade see also Paul R. Krugman, *Rethinking International Trade*, The MIT Press, Cambridge, 2000.

<sup>128</sup> Burkard Schmitt, "From Cooperation to Integration: Defence and Aerospace Industries in Europe", *Chaillot Paper 40*, Institute for Security Studies, Paris, July 2000, p. 80.

procurement issues concern the rules and practices by which purchases are executed, including the purchasing agency. More broadly, however, defence procurement must pay attention to supply as well as to the demand side, that is to such questions as the structure and capabilities of the industry which provides the goods to be bought".<sup>129</sup> For the purpose of this research project the procurement process will be considered from a 'demand' point of view, that is, by observing actors' specific requirements and relative arrangements agreed upon. Nevertheless, time and again, attention will be paid to the actual industrial provisions and arrangements, constituting the supply side of the process.

Analysing a deeply technical topic as that of weapons procurement may overshadow subtle political and economic implications hidden in this issue; instead, "the underlying questions are highly political and (potentially) have considerable financial implications".<sup>130</sup> Therefore, while the different phases of the acquisition process will be presented, an in-depth consideration of its security implications will be provided, "in building weapons, defence officials in every country are pursuing multiple economic and security objectives. These include the support of domestic industries and firms, employment of scientists and engineers, funding for research and development, and, of course, the fielding of equipment that meets perceived national security requirements. Weapons procurement is really about how these various objectives get reconciled".<sup>131</sup>

### 2.3.1 Power and strategic options

The ways in which arms can be procured are many and each of them depends on the power of the state, on its technological might, on its economic and industrial clout and last, but overriding, on its pursued political aim and available strategies. More in general, a state can import weapons from abroad, produce weapons under a foreign licence (co-production, that reflects the technological superiority of one of the partners),<sup>132</sup> design and produce weapons in co-operation with

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<sup>129</sup> Trevor Taylor, in Anand Menon and Joylon Howorth, ed., 1997, p. 121.

<sup>130</sup> Nicole Gnesotto in, "Defence Procurement in the European Union, the Current Debate", *Report of an EUISS Task Force*, May 2005, p. 5.

<sup>131</sup> Ethan B. Kapstein, 1992, p. 116.

<sup>132</sup> More precisely, co-production regards the possibility for foreign countries to produce a weapon system under a license conceded by a prime contractor. Co-

foreign nations (co-development, which imply cooperation from the R&D phase) and design and produce weapons domestically.<sup>133</sup> According to the abovementioned options, only some of these solutions will be chosen by a state, “what type of response a nation may choose will depend largely on its effective power capabilities (that is, its power capabilities and its ability to use them). A state with little power and vulnerable economy will undoubtedly choose a relatively passive nationalistic response and a cooperative international strategy”.<sup>134</sup> By converse, a powerful state will search to produce as much weapons as possible, notwithstanding the costs this might imply.

The emphasis on independence and security of supply, explains Hartley, “has resulted in a variety of separate national defence industries each capable of producing either a complete or a limited range of modern weapons. Inevitably, member states have purchased defence equipment from their national suppliers resulting in wasteful duplication of costly R&D, with each government buying relatively small quantities”.<sup>135</sup> While self-reliance would be the preferred option for a state to keep independence and buttress the national industrial base, it is apparent that, especially in the European case, forms of cooperation between states should be pursued as none of the actors is able to go it alone.

The second and third solutions (co-production and co-development) underline the willingness of the buying nation to take part in the productive process through the participation of the national industry: in this case, jobs increase and hope for a sure technological transfer make these options of a greater value than the pure acquisition abroad. Apparently, co-development will encompass more disagreement among states’ positions, as each tries to pinpoint its management model. On the other hand, simply importing arms will put in danger a state autonomy, will eliminate jobs and public spending opportunities,

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development, instead, is a broader form of cooperation from the early stage of research and development funding towards development and production of the weapon. Another form of procurement is “offsets” whereby a purchase of an equipment may require a precise compensation for the buyer government in the present or the future in different forms.

<sup>133</sup> Andrew Moravcsik, “The European Armaments Industry at the Crossroads”, *Survival*, Spring 1990, p. 65.

<sup>134</sup> Clark A. Murdock, 1997, p. 76.

<sup>135</sup> Keith Hartley, “The European Defence Market and Industry”, in Pauline Creasey and Simon May, eds., *The European Armament Market and Procurement Cooperation*, London, Macmillan, 1988, p. 34.

will downplay pressures towards technological innovations and investments but would spare risks connected with the productive process. This latter, in particular, can be an option for weaker arms producers who can see for example in the American market, a more rewarding solution “if the choice facing the smaller countries is either to buy European defence equipment that is more expensive than similar equipment which they could buy from the United States, or to sacrifice their own industry, jobs and capabilities on the altar of supposedly greater European good, then their compliance cannot be taken for granted, even at the price of weakening Europe’s overall capability”.<sup>136</sup>

The restraints posed by economic, industrial and strategic pressures ask for a huge degree of realism in the pursuit of foreign policy objectives. Given the scarce resources that each state is compelled to work with a tricky question is whether a state’s foreign policy could be properly addressed with a self-reliant procurement strategy. The cost-benefit analysis pursued in the procurement process encompasses therefore not only pure economic reasons but also political and security ones. Hartley provides a series of parameters which should be taken into consideration in the procurement plan: among the costs there are the acquisition price and the life cycle costs, while on the benefits side there are military/strategic features (performance, delivery schedule etc.,) and national economic benefits (jobs, technology, balance of payment, growth).<sup>137</sup>

### **2.3.2 The life-cycle of a weapon system: the limits of free-market practices**

An important step to be undertaken, in order to provide an informed background for our research and to specify the setting of state’s procurement choices, is to frame the procurement process and shed a light on the characteristics of the context in which it occurs. From this point of view, the weapons acquisition process does not take place in and does not represent a perfect free-market situation: expecting that it will be guided by demand and supply forces through the price mechanism is both nonsense and misleading.

As Gansler points out, defence markets have usually one buyer (monopsony); very few larger supplier; do encompass very expensive

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<sup>136</sup> William Walker and Philip Gummet, 1993, p. 12.

<sup>137</sup> Keith Hartley, “Defence Economics and the Industrial Base”, p. 12.

items bought in small quantities; exert monopolistic or oligopolistic prices; present extensive barriers to entry and exit; their prices are proportional to total and not marginal costs, are not paid according to the marginal utility but to the desired military performance and rise with reduced demand. More to that, and because of cost-based pricing, large excess capacity, increasing returns to scale, long delays in development and production costs do arise; the government absolves the role of regulator, specifier and funds provider; products are different; demand is threat-sensitive or responsive to new technologies available.<sup>138</sup>

That said, the procurement process does involve more phases that together define the 'life-cycle' of a defence system. The first step foresees the delineation of the military or operational requirement, which is a product of geo-strategic perceptions, foreign policy goals, budgetary plans and financial constraints, national forces doctrines, equipment design preferences, technological assessments and industrial considerations.<sup>139</sup> States differ not only over the perception of threat and on the definition of their basic interests: states can also differ in the procedural schedule of the procurement process, meaning that even if a basic consensus can be traced on the requirements needed, operational divergences will still complicate a common European approach. For example, some states formulate plans for a long-run period, while other states work on a year to year basis; also there are differences in national parliaments' capacity to monitor the executive power, a fact this latter that can mark a higher degree of discretion in the procurement process. Finally, differences in management and scheduling.

The need to tailor a new military requirement can be spurred by the perception of new threats against which current weapons are not suited, or can be technologically-driven,<sup>140</sup> meaning that the availability of a new technology may improve or ease the use of a given weapon system. While a technology driven incentive normally guides the procurement process of a civil-use product, in defence matters the procurement process requires a much more precise and detailed definition of the operational concept: as Gansler points out, this marks

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<sup>138</sup> Jacques S. Gansler, *Affording Defense*, the MIT Press, Cambridge, Massachusetts, 1989, pp. 159-160.

<sup>139</sup> Keith Hayward, "Towards a European Weapons Procurement Process", *Chaillot Paper 27*, June 1997, p. 4.

<sup>140</sup> Jacques S. Gansler, 1989, p. 144.

a sensible difference between civilian and defence markets, “the defence sector equivalent of market-driven R&D is for the likely operational users of a weapon system to write down what they actually need and how they will use it”.<sup>141</sup> The military mission, emphasizes the author, much more than the design characteristics of the weapon system, should be underlined.

After the definition of the operational requirement, a team of experts tries to envision the kind of weapon system that satisfies these requests. Programme proposals will therefore be compared: the one that better meets the operational requirement set down will be chosen. The industrial side enters the game to propose, throughout its diverse potential contractors, modalities of developing and producing the weapon system that will satisfy the specified requirements at the lower cost. The non-free market nature of the defence sector is apparent in the R&D competition: huge efforts and expenses should be sustained by contenders for a long time, meaning that only few of them are in reality able to face this challenge. In this phase a paramount issue is firms’ willingness to spend huge funds for research and development costs. On this regard, a sound procurement process will foresee systems of incentives which would invite companies to face these efforts and therefore provide a valuable programme.<sup>142</sup>

Going back to the previous point emphasizing the limitations on competition, the development phase poses constitutes a case in point: “development forms a total fixed cost. Where such cost are substantial, as in the case of complex, high technology weapons, they represent a significant entry cost. High development costs also raise the costs of small production runs: hence, in such conditions independence and self sufficiency for a small domestic market is costly”.<sup>143</sup> Against this background, it seems that only powerful industries are able to compete for contract awarding, and in turn, that the contract awarding process ends-up benefiting and strengthening the same industries, *de facto* overshadowing other firms growth perspectives. The point is, however, if competition does really bring about an added value in this peculiar market: as Gansler stresses, it is possible that the restricted competition observed in defence procurement translates itself in a more intense one,

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<sup>141</sup> *Ibid.*, p. 223.

<sup>142</sup> William P Rogerson, “Incentive Models of the Defence Procurement Process”, in Keith Hartley and Todd Sandler, ed., *Handbook of Defense Economics*, Elsevier Science B.V., Amsterdam, 1995, p. 337.

<sup>143</sup> Todd Sandler and Keith Hartley, *The Economics of Defense*, 1995, p. 194.



since “a firm will tend to put more of an effort into its proposal if the probability of winning appears to be very good, and to make a significant smaller effort (or even to drop out) if the number of bidders is large”.<sup>144</sup>

The assigned (prime)-contractor would develop prototypes that, if successful, will advance development and production, a process which is usually time consuming. On its side, the contractor will deal with some sub-contractors charged to procure some components of the system. Maintaining the system and its operating phase (In-Service Support-ISS) requires the hugest amount of money: “to have a significant impact on the costs of weapon systems the support and production costs-not the R&D costs- must be dramatically reduced through a combination of improved design and improved management techniques.”<sup>145</sup> The In-Service Support phase is of the paramount importance for every weapon programme and a sound management of it can improve significantly its performances and decrease its costs. As it will be shown later on, this phase, that concludes the procurement process is one of the main impediment to states’ cooperation because of divergent national exigencies.

The procurement process presented, the following section will deal with the more general aspect of cooperation in defence procurement among European states so as to provide an historical insight of the process and emphasize its pitfalls and backsides amid never-ending incentives to coordinate actions.

## **2.4 Cooperation as a political strategy: past experiences**

Notwithstanding states’ self-reliant attitude towards weapons procurement, attempts at cooperation did arise in the past and the lessons derived from them have somehow informed the actual regime on defence procurement. As Kapstein points out, collaboration in weapon systems is an issue of both theoretical and political relevance because it has always constituted one of the main debates of the International Relations literature and because it has shown the actual policies and strategies adopted by states.<sup>146</sup>

Why do states cooperate? States cooperate because this strategy provides them with a more satisfying outcome than a unilateral path. A

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<sup>144</sup> Jacques S. Gansler, 1989, p. 181.

<sup>145</sup> *Ibid.*, p. 157.

<sup>146</sup> Ethan B. Kapstein, 1991-92, p. 657.

case in point in the field of defence procurement is the United Kingdom rapprochement to Europe, “even the British government seems finally to have decided that participation in the European Armament Agency is not only unavoidable but actually desirable”.<sup>147</sup> What is of interest for the purpose of this research is to observe how cooperation has taken place among states, so as to grasp the reasons pushing states to partly abandon unilateral strategies, and consider how far this cooperation has been brought by the same. This will highlight what states have renounced to and what they have not.

In this particular issue area cooperation has not been difficult because of a basic double-crossing incentive tempting states, but because divergent positions were often expressed: agreements were asked for but fell short of their potential impact because of the desire to get as much as possible the expected returns. The problem, then, was one of ‘distribution’ rather than of ‘defection’. In this sense, there can be economic, political, industrial or strategic reasons spurring states to coordinate their actions. According to Lorell and Lowell, cooperation in weapons procurement does provide various security profits classifiable in economic, operational, and political ones.<sup>148</sup>

The acquisition and management of defence systems has always been employed by states to promote a series of interests, among which prestige and influence in the international landscape, the pursuit of strategic independence because of a strengthened industrial base, the protection of national industries and the maintenance of a high occupational level. If these interests are no longer assured by a unilateral strategy cooperation starts to be seen as a useful alternative. On the economic and strategic side, various blueprints do motivate cooperation, “one reason states pursue cooperation is to obtain better ‘value-for-money’. Governments and industry also pursue cooperation for strategic reasons, as a means of fostering a bilateral/multilateral relationship among capitals or among companies to bank support for a future joint venture or partnering. Still, another reason may involve an attempt at fence-mending, such as smoothing over strained relations in a situation that threatens a larger imminent interest shared mutually by

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<sup>147</sup> Anand Menon and Joylon Howorth, eds., *The European Union and National Defence Policy*, Routledge, London and New York, 1997, p. 17.

<sup>148</sup> Mark Lorell and Julia Lowell, “Pros and Cons of International Weapons Procurement Collaboration”, *Prepared for the Office of the Secretary of Defence*, RAND, 1995, p. 7.

governments or companies”.<sup>149</sup> Of course, every cooperative setting impinges negatively on a state’s freedom of action –even if this depends largely on a state’s relative power- and should therefore be evaluated on the basis of this backside. As Menon argues, “the gains of collective action may outweigh an individual state’s loss of decision-making autonomy as the collective manages to achieve goals no longer feasible for a single state”.<sup>150</sup> The positive side of the matter is that even other actors’ freedom of action is curbed by a cooperative setting, so that their moves are more predictable.

Among all the possible interests aforementioned, the preservation of the national defence industry has been and is one of the leading motivation behind cooperation, “intra-European defence cooperation enables governments to retain certain national defence manufacturing capabilities that they might otherwise lose”:<sup>151</sup> if this was not an objective then states would rather procure their weapons system from abroad saving money. Lorell and Lowell point out that the reason behind cooperation in the European landscape was to prop up a wide-ranging national industry against soaring costs for R&D and procurement. More to that, often the objective was not that of preserving and enhancing an industrial capability, but rather to develop it from the outset.<sup>152</sup> It should be recognized, though, that with a profoundly changed international environment, and therefore with different threats and interests, other important incentives do compel states to coordinate their actions (see the following section). Cooperation may therefore be spurred by strategic and long-term objectives; in this sense European cooperation comes about when “European governments decide to jointly procure on the basis of a common requirement. Such a process entails harmonization and standardization of defence requirements and equipment specification among European countries.”<sup>153</sup>

In general, it is fair to say that the most powerful actors, as for military production, have been able to pilot to their own advantage cooperation

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<sup>149</sup> Center for Strategic and International Studies, 1989, p. 17.

<sup>150</sup> Anand Menon and Joylon Howorth, ed., 1997, p. 6.

<sup>151</sup> David C. Earnest and Robin Niblett, “From Shadow to Substance: An Action Plan for Transatlantic Defense Cooperation”, *CSIS, Center for Strategic and International Studies*, Washington DC, 1995, p. 3.

<sup>152</sup> Mark Lorell and Julia Lowell, 1995, p. 10, 14.

<sup>153</sup> Katia G. Vlachos, “Safeguarding European Competitiveness: Strategies for the Future European Arms Production and Procurement”, *Occasional Paper 4, ISS-EU*, January 1998, p. 18.

projects in order to pursue interests other than the pure development of weapon systems. This has led to disputes among states regarding the nature of programmes, the definition of operational requirements, the work-sharing among their national industries and the transfer of technologies.

Cooperation in defence procurement among European states has in most of the cases assumed the form of bilateral agreements, in the same vein as within the North Atlantic Alliance. In fact, standardization at NATO's level has seen the negotiation of bilateral agreements (Memoranda of Understanding -MoUs) among NATO's allies. While a wider and more encompassing standardization process at the entire alliance level was difficult to implement because of the persisting divergences among states, bilateral MoUs favoured a little degree of interoperability even if plagued by work-share concerns: "part of the perceived failing of transatlantic defence cooperation, therefore, has been the difficulty of setting up and completing balanced programs involving cooperative development through a production that would offer reciprocal benefits to US and European governments and companies, in terms of equitable work-sharing and technology transfer and development, within the program."<sup>154</sup>

The degree of armaments standardization achieved within the Atlantic Alliance was mainly encouraged by the United States, even if, as some authors ironically point out, the standardization process was not based on a compromise solution but modelled on the basis of American exigencies and forced by its power position. Thus, Hayward stresses that America "has regularly preached the virtues of standardization based on European states buying its equipment".<sup>155</sup> The claim for a "two-way-street" was one of the main arguments brought about in the European Defence agenda and motivating a more self-reliant European defence posture. A project developed under the Atlantic Alliance inevitably supported American leadership since only the US had the logistic and institutional capabilities to develop widespread concepts to be internalized within the alliance.<sup>156</sup> Moreover, the United States often opted for co-production programmes with allies, meaning that if some of the assembly lines of the new weaponry could be based on European plants they remained *de facto* under the US's leadership, "as a result

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<sup>154</sup> David C. Earnest and Robin Niblett, 1995, p. 20.

<sup>155</sup> Keith Hayward, 1997, p. 11.

<sup>156</sup> Francois Heisbourg, "Public Policy and the Creation of a European Arms Market", in Pauline Creasey and Simon May, ed., 1988, p. 72.

...US dominance in the NATO weapons market was maintained even as the United States was sharing technology and production techniques with potential competitors".<sup>157</sup>

European states were more eager to buy American systems built up under a co-production agreement rather than buying a product off-the-shelf from another country, because this permitted both to spur the domestic industry and to achieve important fallouts in technological and manufacturing capacity. In return, the United States could penetrate the European market, dissuade European producers from procuring autonomous systems and eschew the risks of co-development projects, "in the debate over the merits of collaborating with foreign production, co-development agreements have generated greater concerns among US defence planners than co-production deals. Co-development, unlike co-production, requires the participants to work together on problems as yet unsolved. The fear has been that prospective competitors might derive more out of the partnership in the transfer of leading edge technologies than US participants".<sup>158</sup> The idea behind this argument is that partner countries learn how to create a weapon system and get some of the technological capabilities embodied in it. The risk is that either they become more powerful and pretend bargaining on a more equal footing or that they become less dependent from the partner facilities.

It is not trivial to assess that rather than being pure commercial strategies the arrangements agreed upon were based on the contractual power of the partners and searched to preserve a defined position within the alliance. In fact, by proposing co-production projects, stresses Kapstein, the United States has pushed its critics to affirm that it was searching to "divide and conquer" the marketplace, therefore calming down potential competitors.<sup>159</sup> Also, it comes as no surprise that these kinds of arrangements have been frequent among the countries that time and again did play the Atlantic card for political reasons; on this point of view Hartley stresses that the United Kingdom with Westland and Italy with Agusta have frequently purchased licences to produce American-designed helicopters.<sup>160</sup>

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<sup>157</sup> Ethan B. Kapstein, 1992, p. 165.

<sup>158</sup> Aaron L. Friedberg, "The End of Autonomy: the United States after Five Decades", *Daedalus*, Fall 1991, p. 83.

<sup>159</sup> Ethan B. Kapstein, 1992, p. 167.

<sup>160</sup> Keith Hartley, "Industrial Policies in the Defence Sector", in Keith Hartley and Todd Sandler, eds., 1995, p. 479. The author explains that licensed

Nevertheless, as in the hegemonic stability discourse where the hegemon ends up losing its competitive edge, the United States have somehow permitted -through co-production projects- the growth of European national industries and consequently the rise of collaboration projects among European states, "American aid (after the Second World War) made it possible for the European countries to develop their own civilian and military production capability, in particular enabling the French and Italian defence industries partly to catch up in the fields of infrastructure and technologies".<sup>161</sup> As Jonathan Tucker explains, as an American firm licensed to a European one a specific technology to build a weapon system it happened that this latter was later on able to store the know-how necessary to build a quasi-competitive weapon system at the expenses of the original one, "thus, a fundamental characteristic of international collaboration in advanced technology is that the players have a mixture of common and conflicting interests: a mutual desire to combine resources synergistically to increase the size of the 'pie', yet divergent interests when deciding how the joint benefits from collaboration are divided between them".<sup>162</sup> The 'distributional problem' has been explained in the first theoretical part but will be particularly clear when presenting the defence procurement regime to-date. It is important, however, not to bring this stability hegemonic argument too far away: as it will be seen in the remainder of the chapter, the United States is and will remain the most important defence producer.

The Atlantic Alliance is today a less compelling argument to force European standardization with American equipments and invite the purchase of American weapon systems. Once again it is possible to see how strategic reasons impinge on the procurement process, "insofar as most European nations are members of the European Union, these nations have greater economic ties to one another than to the United States. These additional ties may eventually result in an integrated defence industrial base developing in Europe that competes with that

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production and co-production are similar arrangements in which states importing weapons gain in return a share of the production work.

<sup>161</sup> Pierre de Vestel, "Defence Markets and Industries in Europe: Time for Political Decisions?", *Chaillot Paper 21*, ISS-EU, November 1995, p. 2.

<sup>162</sup> Jonathan B. Tucker, "Partners and Rivals: A Model of International Collaboration in Advanced Technology", *International Organization*, 45, 1, Winter 1991, p. 86.

of North America".<sup>163</sup> Today, a strengthened cooperation among European states poses some challenges for the Atlantic ally both in economic and strategic terms and these pitfalls are faced either through industrial consolidation strategies or through the promotion of bilateral arrangements. According to some pundits, this latter option has the objective of "introducing a factor of disorder between European countries, promoting a dissociation of their interests that puts in jeopardy the Europeanization paths".<sup>164</sup> According to this thesis, the United States are still searching to 'divide and conquer' by favouring some states, especially the United Kingdom, and conferring them privileged not accessible for other European states, such as a less though exports regime and more cooperative bargaining arrangements. Jean Paul Hébert sustains this point by affirming that some American initiatives, such as the anti-missile defence and the Joint Strike Fighter, can be interpreted as 'dissociation initiatives' aimed at endangering European relations and the creation of a truly and independent 'Europe of defence'.<sup>165</sup> In the same vein others affirm that "in response to the LoI initiative, the United States is developing counter-strategies (for example by dividing its adversaries and choosing a privileged partner-the United Kingdom-or by proposing comprehensive offers with new cooperative arrangements)."<sup>166</sup>

On its side, the United Kingdom has been able to play its cards successfully, as in the case of the choice for the A400M transport aircraft vis-à-vis an American one or of the METEOR missile instead of the Raytheon one, "despite strong American pressures, London chose to combine the operational advantage of having an equipment that was in service in several armed forces in Europe, industrial considerations (British companies being closely involved in the consortium producing the equipments chosen) and the diplomatic dimension (putting into practice in the field of armaments the new British policy of involvement in European defence since the Franco-British St. Malo

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<sup>163</sup> Todd Sandler and Keith Hartley, *The Political Economy of NATO, Past Present and into the 21<sup>st</sup> Century*, Cambridge University Press, Cambridge, 1999, p. 18.

<sup>164</sup> Jean Paul Hébert, "La Consolidation de l'Europe de l'Armement face au Défi Transatlantique", *Cahier d'études stratégiques*, 30, 151, 2001, p. 100.

<sup>165</sup> Jean Paul Hébert, « L'Européanisation de l'Industrie d'Armement et l'Autonomie Stratégique de l'Europe », *Arès*, 48, XIX, 2, 2002, p. 48.

<sup>166</sup> Christophe Cornu, "Fortress Europe-Real or Virtual?", in Gordon Adams, Christophe Cornu and Andrei D. James, "Between Cooperation and Competition: the Transatlantic Defence Market", *Chaillot Paper 44*, ISS-EU Paris, 2001, p. 82.

summit of December 1998).<sup>167</sup> Needless to say the United Kingdom benefits of a room of manoeuvre and of an everlasting relation with the US not available to other states. This means that less powerful states possess far less strategic options.

Aside from the NATO context, European collaboration projects started, even if in an *ad hoc* shape, in the '50s and '60s (Franco-German Colomb-Bechar Agreement) and engaged mainly France, Germany and sometimes the United Kingdom through co-development agreements. Collaboration projects have been fostered mainly by the Franco-German engine and the ambivalent policy of the United Kingdom towards Europe has undoubtedly strengthened this strong continental pole. The decision-making phases, as well as the definition of the military requirements, were bargaining games and ended up most of the time by being compromise solutions, "*ad hoc* industrial collaboration rarely addressed the core issue of planning systematically for the common defence moving towards common tactical doctrines and operating procedures which would help to improve the continuity of European arms procurement".<sup>168</sup> In fact, to a certain extent *ad hoc* agreements do hamper a more integrationist approach and prevent a durable form of cooperation. While *ad hoc* solutions are searched to cooperate but not to give in fundamental interests, Taylor explains that if the same partners can develop follow-on projects, then it is likely that the collaborative arrangements can last longer and give birth to stronger structures, aside from getting back beneficial and concrete returns.<sup>169</sup>

Even if sometimes it was very difficult to face distributional issues, collaboration projects were undertaken to spur political cooperation, "collaborative projects can be used as foreign policy tools; it was noticeable for example in the 1970s and 1980s that when the Franco-German relationship seemed to flag, often the solution was the proposal of a new cluster of joint weapons acquisitions projects".<sup>170</sup> In the same vein, a lot of scholars stress that Tornado was aimed at linking Britain to the European Community before being encompassed in it. Due to a willingness to preserve own facilities and prerogatives, past

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<sup>167</sup> *Ibid.*, p. 72.

<sup>168</sup> Keith Hayward, 1997, p. 13.

<sup>169</sup> Trevor Taylor, in Anand Menon and Joylon Howorth, ed., 1997, p. 127.

<sup>170</sup> Jocelyn Mawdsley, "The Gap between Rhetoric and Reality: Weapons Acquisition and ESDP", BICC (Bonn International Center for Conversion), Bonn 2002, p. 5.



collaborations have been interpreted also as attempts at boasting the national industry. This is so because a cooperation aimed at reducing costs requires the elimination of redundant power-plants or assembly lines, common R&D investments and technology sharing. Past cooperative experiences have been based not on specialization and competitive tendering but on a work-share determined by the financial contribution of the country to the programme. It is probable that European states shared a desire to curb costs but this objective was overshadowed by the willingness to spur the domestic industry and, with it, jobs and technological improvements, “over the past twenty-five years collaboration has emerged as the principal European response to the dual problem of rising weapons costs and ensuring the maintenance of some national defence capabilities in the face of US competition and technical superiority”.<sup>171</sup> If economic incentives for cooperation have been substantial, it is probably fair to say that ‘political’ motivations explain most of the attempts at cooperation, “the efficient use of resources is of second-order concern. For both advanced and less advanced economies, therefore, cost savings from collaborative as opposed to purely national programs may be insignificant”.<sup>172</sup>

Against this background, arrangements agreed upon fell short of being efficient. The joint ventures created did not ease the procurement process because of: administrative and organizational costs derived from duplication of R&D and production work and cumbersome bureaucracies; national modification of the programmes, inefficient work-sharing, delays determined by the need of detailed information and unanimity rules and finally because of transaction costs.<sup>173</sup> Being primarily spurred by national states these joint-ventures were not often motivated on pure industrial reasons and this counts for their poor performances, “joint ventures are typically industry-led, but established with the consent of the governments of the home countries of the companies involved. They may be an effective mechanism for combining the diverse technological capabilities of different companies, but they are less efficient in bringing down development and

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<sup>171</sup> Ethan B. Kapstein, 1991-1992, p. 663.

<sup>172</sup> Mark Lorell and Julia Lowell, 1995, p. 2.

<sup>173</sup> Keith Hartley, “Industrial Policies in the Defense Sector”, in Keith Hartley and Todd Sandler, eds., 1995, pp. 476-477.

production costs and in enhancing the overall operational performance of the products”.<sup>174</sup>

One of the most important European collaborative projects, explains De Vestel, was the Tornado aircraft of the early ‘70s that saw the combined participation of Germany, Italy and the United Kingdom. These countries agreed on common requirements for a new aircraft and created an *ad hoc* NATO agency (NAMMO-Multirole Aircraft Management Organization) which awarded the contract for the development of the aircraft to a Consortium (Panavia) composed by the firms of the three states, “the demand of the three partners alone meant that over 800 aircraft could be built”.<sup>175</sup> Nevertheless, as the author remarks, each of these countries insisted to have a final assembly line in its country *de facto* increasing the costs of the cooperative effort.

Other examples of often cited troubled programs are, among others, the Eurofighter (Spain, the United Kingdom, Germany and Italy) aircraft, the Tiger helicopter (France and Germany-see below), the Horizon Frigate (Italy, France and Germany). As an example, the Eurofighter programme, explain Creasey and May, highlighted the typical problems undermining European cooperation, namely the ownership of design leadership and work-sharing between participating states, the standardisation and interoperability of common components and questions related to the transfer of technological knowledge from the United States in case of an America participation in the project.<sup>176</sup> Also, the Eurofighter project has been delayed because of recurrent political and financial uncertainties: these latter delayed of more than one year the formal agreement by the partner nations. The four partners that were ‘supposed’ to cooperate, affirms an expert on military issues, were not able to agree on anything if there was not an exchange of favours which guaranteed the interests of all parties: this has caused huge delays and therefore increased costs.<sup>177</sup>

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<sup>174</sup> Commission of the European Communities, “The Challenges Facing the European Defence-Related Industry, a Contribution for Action at European Level”, *Communication from the Commission*, Brussels, 1996, p. 9.

<sup>175</sup> Trevor Taylor, in Anand Menon and Joylon Howorth, ed., 1997, p. 125.

<sup>176</sup> Pauline Creasey and Simon May, ed., *The European Armaments Market and Procurement Cooperation*, 1988, p. 1.

<sup>177</sup> Ezio Bonsignore, “La Eurofiga dell’Eurofighter”, *Pagine di Difesa*, August 2, 2005, [www.paginedidifesa.it/2005/bonsignore\\_050802.html](http://www.paginedidifesa.it/2005/bonsignore_050802.html). Bonsignore’s consideration of a balanced cooperation as the one in the Eurofighter does not leave space for optimism: he asserts that notwithstanding their importance on the strategic and the political ground and notwithstanding the great (but

It is clear that cooperation among similarly powerful actors poses the problems just envisioned, but it is also likely that the real benefits to be derived from a similar configuration are huge “the nearer capabilities and market requirements are to equality, the more difficult it can be to decide the allocation of resources and design leadership, even if collaboration between equals can have more far-reaching consequences if it forces participants to rationalise their activities”.<sup>178</sup>

Another aim of collaborative projects was to face American hegemony in defence and strategic issues, but in general each state had its own objectives. For Germany cooperation was necessary both to improve its defence might and to be firmly ‘re-inserted’ among the European great powers. For France and Italy cooperation helped strengthen the industrial base and the technological might; for France, in particular, European collaboration was seen as a way at gaining leadership within the European political process. The United Kingdom had first to face a declining international position, also because of its onerous contribution to the Second World War, and then to keep inserted within the neonate European Community: this has determined a more pro-European stance. Thus, collaborative projects fulfil a series of different objectives for states: political, industrial, economic and strategic. Explaining cooperation looking only at one of these features would be both misleading and useless. In the same vein, a sound attempt at building an efficient institutionalized framework for cooperation should take into account all these factors and back-sides. What is to be investigated is if the current pattern of cooperation is still reflecting these exigencies: to do that it will be paramount to assess the context in which cooperation takes place today and the pressures constraining states’ options.

It is clear that past cooperative attempts have failed to incentive a ‘routinization’ of collaboration: in particular, what has lacked for the formation of a common procurement policy was a broader harmonization of operative requirements as the product of a common foreign policy. This process would have not only paved the way for a truly European defence stance, but also provided fundamental economic savings through the joint production of the same weapons. As Schmitt recognizes, to imagine a completely integrated armament

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theoretical) advantages on the economic and industrial field these programmes among quasi-equal actors are destined to failure from the point of view of the costs they will require and the time-lag they will bring about.

<sup>178</sup> William Walker and Philip Gummet, 1993, p. 17.

policy is nonsense but it is also pointless to keep on going with traditional forms of cooperation, such as *ad hoc* (programme-by-programme) agreements, “to gain full advantage from a consolidated industrial base, governments must change their mode of cooperation throughout the procurement process and redefine their role of customer, sponsor and regulator”.<sup>179</sup>

It is fair to say, though, that one of the main disincentives for the creation of a political process has been the presence, in Europe, of very differently-capable countries as for arms production and purchase. This constitutes a problem for cooperation because more powerful states, thanks to their structural power, can probably both define the operational requirements and win the industrial battle against the smaller nations. As Walker and Gummet point out, economy-led integration will distribute capabilities giving advantages to the strongest, wiping out non-competitive companies: therefore, achieving more interdependence is only an available strategy if states trust each others and this is possible only if states share common political aims.<sup>180</sup>

What has lacked in the past was a political will, which could have led to institutional arrangements and public support for joint procurement processes, “although European weapons collaboration is more than thirty years old and much has been learnt about how to run such programmes there are still fundamental problems in reconciling efficiency with political factors.”<sup>181</sup>

The lessons of the past are very instructive from this point of view, because they can highlight all the challenges likely to occur when cooperating and the more recurrent limits to coordination.<sup>182</sup> The emphasis of European states on the ‘lessons of the past’ to improve the joint procurement process has to be interpreted as a blueprint to optimize an inevitable tendency today “over the past years a consensus has developed among European governments that the past *ad hoc* approach to collaboration, in which projects were launched when there happened to be a happy coincidence of interest, will not do for the future”.<sup>183</sup> In particular, durable forms of coordination in weapon

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<sup>179</sup> Burkard Schmitt, 2000, p. 59.

<sup>180</sup> William Walker and Philip Gummet, 1993, p. 3.

<sup>181</sup> Keith Hayward, 1997, p. 3.

<sup>182</sup> See on this point “Cooperative Lessons Learned: How to Launch a Successful Co-operative Programme”, Final Report Commissioned by the European Defence Agency, November 30, 2006.

<sup>183</sup> Pauline Creasey, “The Options and Prospects for Defence Procurement Collaboration”, in Pauline Creasey and Simon May, ed., 1988, p. 166.

systems should be promoted. Also, a sound procurement mechanism should be investigated. Hartley clarifies that in order to improve the functioning of collaborative projects three strategies can be adopted: using competition to determine work-share, singling out a sole prime contractor which shares the risks of the projects, using compensations or side-payments.<sup>184</sup>

As for this argument, de Vestel launches the tricky dilemma of whether the process of security and defence integration, that is taking shape in Europe, can succeed where the American hegemony has failed.<sup>185</sup> In order to answer this question it is paramount to assess the conditions and incentives for this process to happen, “capitalising and managing-in reality correspond to two opposing concepts that the European may have of Europe. The first motivation is more political and determined, it will tend to insist on the notion of capitalisation, and the aim is often that of a European power that has a common defence policy and integrated industries and markets, the classic attributes of power. The second concept is functional and is characterized by ‘subsidiarity’. In the European dimension it sees in particular the means to manage better certain specific aspects of industries and markets that can no longer be managed at the national level.”<sup>186</sup> Coordination between states does not mean that one of these motivations outweighs the other, but it simply means that states find one of these arguments stringent. More probably, European cooperation in defence procurement reflects the non-conflicting aims of preserving a national dimension through more fluid linkages between the state and industries and a souring necessity to cooperate with partners.<sup>187</sup> Both aims point to the need of some kind of coordination in states strategies, “the major European countries will have to choose in which sector of technology they wish to dominate at the national level, the sector they wish to develop in more or less institutionalized collaboration between countries or through agreements between companies, and lastly the sectors in which they will have to rely on imported technology”<sup>188</sup>.

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<sup>184</sup> Keith Hartley, “Industrial Policies in the Defence Sector”, in Keith Hartley and Todd Sandler, eds., *Handbook of Defense Economics*, 1995, pp. 459-487.

<sup>185</sup> Pierre De Vestel, 1995, p. 7.

<sup>186</sup> *Ibid.*, p. 18.

<sup>187</sup> *Ibid.*, p. 11.

<sup>188</sup> *Ibid.*, p. 13.

## 2.4.1 Pros and cons of defence procurement cooperation

States' willingness to cooperate assessed, it is now time to sum up and reflect more in details over the 'pros' and 'cons' of cooperative agreements. As seen before, cooperative projects on the European field can be beneficial because they are likely to reduce and share costs through economies of scale; to pile up research and investment expenses; to spur technological innovation; to share in-service support costs which weight the most in a programme; to sustain the national industry and related jobs; to deepen a European concept about defence; to increase Europe's competitiveness towards the United States; to promote some level of standardization necessary for interoperability and to increase export capabilities. As authors point out, "common equipments can help countries work together on international missions. Most EU member-states will only carry out military operations as a part of multinational coalition, and such 'interoperability' is vital for the success of military coalitions".<sup>189</sup> Nevertheless, it should be emphasized that cooperation involves also some costs: the beneficial impact of coordinated actions should be therefore evaluated on the basis of this trade-off.

Among the more apparent costs are transaction ones, derived from the negotiation process among states and the distributional issues likely to emerge, "international collaboration in arms development and procurement has not always proved to be successful. Such arrangements often increase the number of missions that a weapon is intended to accomplish, so as to please the constituent nations' mission requirements. ..the end result may be a complex, expensive weapon that does not fulfil any mission and that takes a longer time to develop".<sup>190</sup> Economic specialization is not often achieved and inefficient work-sharing is not likely to bring about the wanted results; in this sense, an inadequate cooperative procurement process can be inferior to a national one given its dimensions and the costs to be faced. Moreover, procrastinated negotiations and national uncertainties are likely to delay a programme, increasing its costs: in order to partially correct this weakness and take the programme forward, international contracts foresee 'withdrawal points'-generally these are open

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<sup>189</sup> "Cooperative Lessons Learned: How to Launch a Successful Co-operative Programme", 2006, p. 8.

<sup>190</sup> Todd Sandler and Keith Hartley, *The Economics of Defence*, 1995, p. 339.

windows set just before a major financial engagement has to be signed.<sup>191</sup>

Another cost concerns a comparison between the actual arrangement point achieved and the initial requirement proposal submitted by states, given that most of the time bargaining is inevitable, “any international agreement will be a compromise between the maximum bids of each partner and the minimum terms required to persuade it to join and remain a member of the club”.<sup>192</sup> Finally, there is the cost brought about by *juste retour*: this practice has been employed in the past to assure, to countries committed to a certain amount of expenditures, a fair return in terms of work-share. This practice, which is broadly used even today is ultimately inefficient, “ it leads to the creation of several production lines in the participating states, with the consequence that the expected scaling effect cannot be achieved in practice and that the co-operative programme provides no economy comparing with isolated works, but adds the burden of co-operation”.<sup>193</sup>

For these reasons, the shape coordination would take says a lot about a nation’s satisfaction in a cooperative setting. As Kapstein suggests, a sound way to assess the procurement process would be: first, to see if, in a long-term perspective, performances have increased while costs have scaled back; second, to evaluate if the costs and performances set as requirements have been fulfilled properly.<sup>194</sup> Looking at European cooperation will request to pay a particular attention to these two parameters.

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<sup>191</sup> Keith Hartley, “Defence Economics and the Industrial Base, p. 13.

<sup>192</sup> Keith Hartley, in Keith Hartley and Todd Sandler, ed., *Handbook of Defense Economics*, 1995, p. 475.

<sup>193</sup> Nicolas Dufour and Patrice-Emmanuel Schmitz, “Intra-Community Transfers of Defence Products”, Unisys for the European Commission, February 2005, p. 65. [http://www.ec.europa.eu/enterprise/defence/defence\\_docs/final\\_report\\_dfc\\_en.pdf](http://www.ec.europa.eu/enterprise/defence/defence_docs/final_report_dfc_en.pdf)

<sup>194</sup> Ethan B. Kapstein, 1992, p. 127.

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## COLLABORATION - DEFENCE EQUIPMENT PROCUREMENT

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### European Collaborative Equipment Procurement in 2006

Total Defence Equipment Procurement: € 29,1 Billion

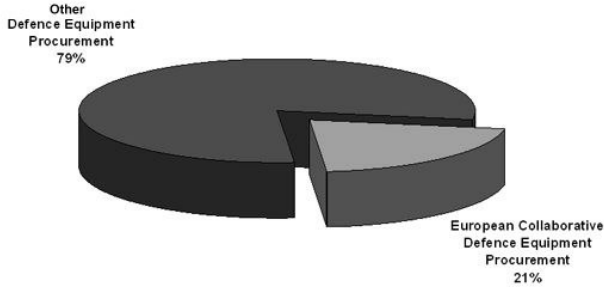


Figure 2. Collaboration in Defence Equipment Procurement. Source: European defence Agency, "European Defence Expenditures in 2006", November 19, 2007, Brussels, [www.eda.europa.eu/WebUtils/downloadfile.aspx?fileid=324](http://www.eda.europa.eu/WebUtils/downloadfile.aspx?fileid=324)

To the mentioned challenges, one problem not directly related to the functioning of defence procurement has a huge impact on cooperative efforts: states' structural power. In fact, assessing the presence of a regime in defence procurement means inevitably marking a divide: while cooperation at the European level has taken ground in formal declarations, there seems to be a lack of willingness to promote an all encompassing institutionalization process in favour of coordination, "the development of cooperative European weapons programmes is inseparable from institutional evolutions and from the construction of a thinking and from European defence might".<sup>195</sup> It seems that the most powerful European states have eschewed cooperation with less powerful ones, or, at least have searched not to entangle them at a European level on armaments issues. If progress exists, this is outside of the EU context, and even in this case it is likely to engage distributional issues and to be particularly harsh, "despite the efforts to strengthen EU institutions and mechanisms, the most important

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<sup>195</sup> Jean Paul Hébert, "La Consolidation de l'Europe de l'Armement face au défi transatlantique", 2001, p. 49.



initiatives are taking place outside of the EU-in the OCCAR and among the signatories to the Letter of Intent/Framework Agreement”<sup>196</sup>.

It is likely that an encompassing outline of coordination will require side-payments as a form of compensation for the strongest states. In fact, small states gain every benefits through coordination, by spurring their industrial base and by achieving technological transfers. More powerful states would pretend a return for their cooperative endeavour. This reminds to the aforementioned argument about French and German cooperation in weapons systems. Features such as project leadership and work-share will be paramount to assess the distributional outcome; in fact, in the European Fighter Aircraft Project, “Dassault insisted on the leadership role because it calculated that the benefits from collaboration as a coequal partner would not outweigh the expected position costs, including the partial loss of autonomy and relative technological advantage...it demanded a large side-payment including not only the project leadership but also a disproportionate share of the development and production work”<sup>197</sup>.

Having described the general features of the defence procurement process and the challenges emerged in past cooperation, time is ripe to contextualize the research and show the incentives that are leading states towards coordinated actions in defence procurement; therefore economic, industrial and strategic pressures will be presented.

## **2.5 The limits to states’ available options**

### **2.5.1 Economic motivations**

This section will clarify the ‘economic’ dimension of the cooperative procurement process by emphasizing two aspects: first of all, defence expenditures should be tailored on the objectives of the state subject to fiscal constraints. Second, given the reduction in defence budgets experienced from the end of the Cold War, states cannot but envision the better strategies to pursue their defence interests: among these, coordination with other states unleashes the most rewarding results. The following section will underline these two points and the related pressures constraining actors’ alternatives in defence procurement.

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<sup>196</sup> SWP/AICGS Seminar on the Future of Transatlantic Arms Cooperation and the Perspectives for Germany’s Armed Forces and the Defense Industrial Base”, Berlin, November 14-15, 2002.

<sup>197</sup> Jonathan B. Tucker, 1991, p. 114.

Each government devotes funds to defence according to the priorities stated by the Minister of Defence, requested by International alliances and security organizations of which the country is a component, and deemed compatible with general public spending. Prioritizing means striking a balance between a government's objectives. Therefore, when deciding how to relate defence with other priorities governments do ask "how much can we afford to spend? That is, how does defence spending affect the economy? Can we reduce the cost of defence by changing the way we do things (e.g., by adopting different defence strategies, new and lower-cost technologies, and better methods of managing defence resources"? If these were the questions that Jacques Gansler presented in his book "Affording Defense",<sup>198</sup> written in the early '90s in order to spur a re-thinking in the American weapons acquisition process, there is no reason to doubt the relevance of the same questions for European governments facing similar challenges. The risks ahead impose that an efficient and sound defence strategy is adopted; in the same time, though, "a credible national-security posture cannot be developed without a realistic recognition of the fiscal constraints".<sup>199</sup>

Jealous of their defence stance European states have searched to keep their own defence market and industries, even if this was inefficient in economic terms. This means that duplications of defence infrastructures, programmes and investments dedicated to research and development have rendered more cumbersome the process towards rationalization of military equipments in the European landscape. As Hartley points out, the absence of a single market for defence equipments is costly and inefficient, leading to monopolies, barriers to entry and exit, non-competitive cost-based contracts, state ownership, subsidies and governments interferences.<sup>200</sup> Are the costs associated with a second-best solution, from a competition standpoint, less than the benefits associated with the preservation and the consolidation of an autonomous industrial base? Is such a strategy sustainable? Is this kind of strategy sound in order to assure a state

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<sup>198</sup> Jacques S. Gansler, *Affording Defense*, 1989, p. 15.

<sup>199</sup> *Ibid.*, p. 65.

<sup>200</sup> Keith Hartley, "A Single European Market for Defence Equipment: Organisation and Collaboration", Chapter funded by ESRC, Centre for Defense Economics, University of York, p. 5. <http://www.york.ac.uk/depts/econ/documents/research/collabn.pdf>

security, power and interests? These are the questions that statesman answer, or should so doing, when considering their defence strategies. Pure competition based on specialization was not a viable option according to European states, but other forms of procurement could have been envisaged to tackle economic challenges. In a study promoted by the European Commission, four scenarios have been proposed to render more efficient the defence procurement sector in the European context. The study showed that a completely centralized procurement agency replacing defence ministers would have determined the most significant savings. Given that this perspective is politically difficult to achieve, another important but more realistic way to get cost savings suggested to engage in a “twin track” approach, where competition would characterize the purchase of small and medium-size equipment, while for bigger projects states would cooperate through joint procurement.<sup>201</sup> The reason behind this is that big programmes do encompass important interests as for work-share, jobs and technological sharing, and competition does not take into consideration these elements; also, competition is *a priori* ruled out because big programmes are affordable only by big industries.

At the beginning of the '90s and with the end of the Cold War, the perception of the threat coming from the East began to evaporate: the implosion of the Soviet Union was highlighting the end of a long period of cold confrontation characterized by huge military expenses. With the loss of the common threat two kinds of phenomena did happen: a certain breaking-up of the Atlantic cohesiveness and a desire to spend more on social programs and focus on economic matters. In particular, as for the first point the Atlantic Alliance started to show deep internal divergences regarding defence and security matters, paving the way for a European-oriented approach on these topics. The focus on economic and social issues was apparent in Germany, undertaking at that period hard measures (fiscal expansion and monetary tightening) to confront the reunification and in Italy, France and the UK facing hard times inside of the European Monetary System. Moreover, just at the beginning of the '90s, pressures to comply with the Maastricht Criteria did compel states further to re-formulate their budget plans. Therefore, it was thought, a relaxed posture on the

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<sup>201</sup> European Commission, "The challenges facing the European defence-related industry, a contribution for action at European level", Communication, COM1995, [http://ec.europa.eu/internal\\_market/publicprocurement/dpp\\_en.htm](http://ec.europa.eu/internal_market/publicprocurement/dpp_en.htm)

defence sector would have promoted and eased other internal objectives.

Against that background, pursuing an efficient and effective defence procurement was not an easy task to meet given the plummeting military budgets. With this kind of fiscal constraint national orders of weapon systems did decrease, putting at risk the survival of defence industries and investments in R&D. In fact, Schmitt recalls that “paradoxically, budgetary restrictions contribute further to the rise in costs. They lead not only to postponements and the spreading of work over time but also to considerable reductions in the size of programmes. This in turn results in a contraction of companies’ activities and a consequent rise in unit production costs”.<sup>202</sup> On the other hand, states had to envision new strategies to fulfil their defence requirements since self-reliant postures were no longer an option. At a certain point it became imperative, for a government wishing to maintain its national industry, to engage in forms of coordination with other states to share costs and gain costly technological innovations.

On the strategic context, new and multifaceted threats such as ethnic conflicts and international terrorism posed new challenges to be faced by coordinated efforts. Also, technological innovations, translated from the civil to the military context through spill-in effects, soared the costs of producing weapon systems: both phenomena did require a resolute increase of defence expenditures just at the moment when these were at the lowest level ever. Since a significant extension of the defence budget was not achievable, the resources to work with should have been optimized, and cooperation did emerge as the most appropriate solution to this problem.

With decreasing national orders industries can dispose of only two solutions: either exporting their products or decreasing the costs-per unit associated with the production of the weapon system. None of these decisions can be taken independently from a political consideration. Selling arms abroad can be valuable when arms remain within an alliance but harmful when these go to other states.<sup>203</sup> On the other hand, to decrease costs, the number of weapon systems to work with should be broadened. Given that arms export was not a rewarding

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<sup>202</sup> Burkard Schmitt, 2000, p. 7. For more details on the increase of unit production costs see the industrial part in the following section.

<sup>203</sup> For a consideration of economic implications within alliances see Mancur Olson Jr. and Richard Zeckhauser, “The Economic Theory of Alliances”, *The Review of Economics and Statistics*, 48, 3, 1966, pp. 266-279.

deal immediately after the Cold War the most reasonable solution was to reduce costs for the production of military programmes and this was possible only through coordination with other states, “allies may have to consider the possibility for closer cooperation in terms of pooling resources; streamlined budgets may not allow nations unilaterally to meet all kinds of contingencies”.<sup>204</sup>

Cooperation was and still is conceived as the best solution in time of scarcity, an option that would guarantee defence objectives while preserving other paramount interests. Ideally this process should involve a common definition of requirements based on a whole European defence strategy. Also, it should foresee cooperation among national ‘champions’ or even their integration so as to derive the best gains from collaboration “when formulating their systems requirements, national governments will have to consider those capabilities that pan-European companies will possess, thus forcing a deeper level of European inter-governmental coordination both on requirements and on the timing of programme development. In this manner cross-border industry consolidation will force Europe’s governments to collaborate more”.<sup>205</sup> A realist procurement strategy should be one which is able to prioritizing among different objectives in order to be both economically sustainable and also strategically effective. The imperative of the procurement process will be to envision the better way to achieve these two objectives, “pressures to reduce defence budgets will increasingly expose the costs of independence and bring reality to these single market and free trade visions”.<sup>206</sup>

The impact of economic pressures on states can be remarkable, but it should be remembered that only a bunch of European countries are effective armaments producers and purchasers: this is likely to restrict the setting of cooperation to these states, rendering more difficult a thorough European approach. The UK, France, Germany and Italy are said to account for the 80% of Europe’s defence production, with France and the UK consisting of as much as 70% among the four. On the basis of the *juste-retour* requirement, implying that work is allocated on the basis of equity rather than on efficiency criteria, an all encompassing cooperation would complicate the decision-making process and increase transaction costs and information asymmetries.

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<sup>204</sup> Todd Sandler and Keith Hartley, *The Economics of Defense*, Cambridge University Press, Cambridge, 1995, p. 2.

<sup>205</sup> David C. Earnest and Robin Niblett, 1995, p. 10.

<sup>206</sup> Todd Sandler and Keith Hartley, *The Economics of Defence*, 1995, p. 232.

Finally, a truly efficient defence market, from an economic point of view, should theoretically be one where competition towards non-European states stands as one of the primary parameters for contracts awarding: the rising image of a 'fortress Europe' is somehow suggesting that other parameters stand above in states' considerations. As seen, economic pressures are compelling states to envision new strategies to face defence requirements. Coordination is likely to handle these economic challenges if properly addressed, but a paramount political will should prop up this process, as it was the case with the industrial restructuring and consolidations presented below.

## 2.5.2. Industrial motivations

As stated before, different pressures are pushing states towards cooperative endeavours. One of these incentives is industry-led, "in a first phase, between 1998 and 2000, industry was the driving force, engaging in cross-border consolidation and setting up a network of transnational companies and groups...this development was initiated in the absence of the appropriate political and regulatory frameworks, in response to the demands of the market".<sup>207</sup>

The industrial sector can be considered as the supply-side of the procurement process, that further constrains states from pursuing autonomous policies. At a deeper glance it is possible to say that rather than pressures, those exercised by the industrial sector are better labelled as "incentives" or "opportunities" for governments: the process of horizontal and vertical consolidation taking ground in the European context should somehow ease a political cooperative approach towards defence procurement.

Even if the industrial one is the field more prone to market-driven decisions, it will be underlined that governments play an important role in the shape of the industrial panorama: "governments are central to understand defence industries. Governments are major buyers and sometimes, the only buyers of defence equipment (monopsony). A government can use its buying power to determine the size and ownership of its national defence industry, its structure, entry and exit, prices efficiency and profitability...".<sup>208</sup> Eugene Gholz stresses the role of the state as the "buyer" of defence systems as well, and therefore the importance conferred to its satisfaction: this makes more clear how the

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<sup>207</sup> Nicole Gnesotto, 2005, p. 5.

<sup>208</sup> Keith Hartley, "Defence Economics and the Industrial Base, p. 2.

buyer can impinge on the supplier' policies.<sup>209</sup> By converse, because of the economic difficulties that defence industries found themselves to face after the end of the Cold War they sometimes engaged in lobbying their governments in order to keep alive and search some form of subsidies, "in this political economy view of defence procurement, defence firms should not be criticized for using the political process to win contracts. They are simply maximizing their profits given the political and economic constraints of their sunk investments-exactly what should be doing in their shareholders' interests".<sup>210</sup> While all defence industries have historically been supported by the help of national states, Ezio Bonsignore asserts that this practice is in no way necessarily detrimental to overall efficiency, competitiveness or sound management, "the interests and goals of private investors do not always and necessarily correspond to the policies, a responsible government would wish to implement".<sup>211</sup>

A state's participation in defence industries shows the importance of this kind of industry in the broader strategic policy of a nation. In this sensitive field, more than in others, states' mobilization in terms of funds provision for research and technology is paramount, also because of the spin-off fallouts in civil sectors that would benefit the overall economy, "the defence industry's particular significance as the industry which provides countries with their ultimate means of power remains undiminished, and continues to add some very special features to international trade competition".<sup>212</sup>

In assessing the industrial landscape of defence procurement it is important, first of all, to mark a divide between large industries and smaller ones: large defence industries are traditionally those that belong to a big and powerful state and that have developed advanced equipment and technological capabilities. The four major European countries -France, Germany, the United Kingdom and Italy- have all big defence industries and will strive as much as possible to keep them and to increase their power. Because of a general wish to improve the performances of every national industry, the European landscape is

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<sup>209</sup> Eugene Gholz, "Why Globalization Will not Affect the Defence Industry: Political Incentives against Cross-Border Defense Restructuring", 2002, p. 3.

<sup>210</sup> *Ibid.*, p. 8.

<sup>211</sup> Ezio Bonsignore, "Of States and Shareholders", *Military Technology*, 8, 2007, p. 3.

<sup>212</sup> Jens Van Scherpenberg, "Transatlantic Competition and European Defence Industries: A New Look at the Trade-Defence Linkage", *International Affairs*, 73, 1, 1997, p. 104.

characterized by fragmented national markets which lead to non-useful and costly duplication, to uncoordinated orders that hamper the creation of efficient production runs and to a lack of equipment standardization, “national champion policies is the practice of awarding major military contracts almost exclusively to major national industries with the objective of maintaining a strong domestic defence industrial and technological base, even if that often means keeping alive relatively unprofitable national champions. Such policies lead to inefficiencies, overcapacity and duplication on a European level.”<sup>213</sup> As for small industries, a differentiation must be made among those that did specialize in niche production or technological skills and that are necessary both at the European and Transatlantic level as producers of subsystems, and those that do not contribute significantly to the defence panorama. According to the strength or the weakness of its defence industry, each state will adopt different strategies as for European cooperation and transatlantic relations: of course, the more powerful the defence industry the more the options at hands.

Notwithstanding the eagerness of the national states to protect and strengthen the own national industry, a general restructuring process has come about together with a more favourable approach towards cooperative settings. As Sköns and Wulf correctly point out, this process is very important in the light of previous considerations about the preservation of a national industrial base; the restructuring process should make reflect over the nature of the industrial aspect to be strengthened.<sup>214</sup> The attempt at rationalizing the European industrial landscape and consolidating its technological base has been spurred by a series of factors that together led into the direction of more coordinated behaviours.

The defence industry exhibits an oligopolistic nature and is characterized by economies of scales, for which fixed costs could be spread out through huge quantities produced. While unit production costs have always been huge for this kind of industry, the sophistication of some programmes together with the technological innovations brought about in the last years require such huge R&D investments that unit costs for weapons productions are skyrocketing. Huge costs as for R&D are one of the leading incentives behind

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<sup>213</sup> Katia G. Vlachos, 1998, p. 6.

<sup>214</sup> Elisabeth Sköns and Herbert Wulf, “The Internationalization of the Arms Industry”, *Annals of the American Academy of Political and Social Science*, 535, 1994, p. 44.



cooperation at the European level.<sup>215</sup> This is so because of the changed missions that states need to face, that require more refined weapons systems than those available: “most of European militaries lack the capabilities they need to be truly expeditionary, such as deployable, interoperable C4ISR, strategic lift, and deployable logistic”.<sup>216</sup>

As David Kirkpatrick recalls, an increase in weapons unit costs will increase fixed costs sections of following projects (research, design, development, testing and operational investment).<sup>217</sup> The effect is twofold: on the one hand, quantity of weapons systems produced are inevitably decreasing given the fragmentation of defence demand in the European context, with the consequence that as national orders decrease so do the hope of the industry survival. On the other hand, industries need to broaden their work base in order to achieve economies of scales and share R&D expenses. Fixed costs do not depend on the number of systems produced; in order to abate these costs states have two options, they can either “buy second-rate weapons while maintaining the scale of their forces at the same level, or they may choose to buy new first-rate weapons to equip smaller forces”.<sup>218</sup> Since the end of the Cold War states have opted for the latter solution.

On the industrial stand point, this has translated into vertical consolidation processes, especially within countries, and forms of transnational horizontal cooperation, leading in some cases to mergers and acquisitions dynamics (M&A). This kind of rationalization process was apparent in the American market which, during the late ‘80s, gave birth to major merger processes creating few big prime contractors especially in the aerospace sector: the Boeing Group (Rockwell-McDonnell Douglas) and Lockheed Martin. In other sectors, Northrop Grumman and Raytheon did emerge. American consolidations created big defence entities that endangered the competitiveness of the European ones. European industries felt the same consolidation necessity, but their cross-border integration possibilities were somehow restricted, “European horizontal integration was largely limited to

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<sup>215</sup> Keith Hartley, “Defence Economics and the Industrial Base”, p. 4.

<sup>216</sup> Michèle A. Flournoy and Julianne Smith, Lead Investigators, “European Defense Integration: Bridging the Gap between Strategy and Capabilities”, *Research Paper*, Center for Strategic and International Studies, Washington DC, 2005, p. 20-21.

<sup>217</sup> David L Kirkpatrick, “Trends in the Costs of Weapon Systems and the Consequences” *Defence and Peace Economics*, 15, 3, 2004, p. 267.

<sup>218</sup> *Ibid.*, pp. 269-270.

symbolic 'corporate alliances'-exchanges of small amounts of ownership or collaboration in certain production areas-rather than M&A."<sup>219</sup>

As Trevor and Derrick point out, while in the United States mergers and acquisitions have characterized the process of defence restructuring, in the European context different and more cautious forms of cooperative arrangements were tried: joint ventures, strategic alliances, *ad hoc* arrangements, consortia.<sup>220</sup> This should not surprise given the fact that the United States constitutes a unique market with unique rules and procedures. Jean Paul Hébert reminds that industrial concentration within the American industrial landscape has not borne out of a general encouragement to pool together activities but was determined by concrete actions to underpin them: the US called the neutrality of the antitrust authorities and supported financially the consolidations,<sup>221</sup> a point this one, that is also remarked by Gordon Adams, "the American government played a role in this process, easing the enforcement of anti-trust laws and subsidizing contractors for the costs of consolidation in proportion to the savings that would result to the Governments".<sup>222</sup>

The American rationalization process spurred further the restructuring path endorsed by European states: American companies were likely to become more competitive and challenge European industries position in international markets. Therefore, pushed both by increasing costs and a new competitive challenge launched by the US, truly European companies have been created, the most important being the European, Aeronautic, Defence and Space Company (EADS).<sup>223</sup>

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<sup>219</sup> Andrew Moravcsick, 1990, p. 69. For a powerful outlook of industrial defence cooperation see Jean Paul Hébert, "L'Européanisation de l'Industrie d'Armement et L'autonomie Stratégique de l'Europe", *Arès*, 48, XIX, 2, 2002, pp. 45-59.

<sup>220</sup> Derrick J. Neal and Trevor Taylor, "Globalisation in the Defence Industry: an Exploration of the Paradigm for us and the European Defence Firms and the Implications for Being Global", *Defence and Peace Economics*, 12, 2001, p. 347.

<sup>221</sup> Jean Paul Hébert, 2002, p. 48.

<sup>222</sup> Gordon Adams, "Fortress America in a Changing Transatlantic Defence Market", in Gordon Adams, Christophe Cornu and Andrei D. James, 2001, p. 17.

<sup>223</sup> BAE System (United Kingdom) has been created by the take over of GEC-Marconi Electronics Systems by British Aerospace. BAE is vertically integrated and covers a broad array of defence fields. For size BaE is surely able to compete with American giants; moreover, it is one of the most important

1990		2002	
SE	Ericsson	SE	SAAB AB
SE	SAAB AB		
SE	Celsius	UK	SI Group
UK	Smith Industries		
UK	Westland		
UK	GKN	UK	BAE Systems
UK	British Aircraft Corp.		
UK	General Electric		
UK	Racal	UK	Rolls-Royce
UK	Rolls-Royce		
FR	Matra	FR/DE/ES	EADS
FR	Aérospatiale	FR	Dassault Aviation
FR	Dassault Aviation	FR	Alcatel
FR	Alcatel	FR	Thales
FR	Thomson-CSF	FR	Snecma
FR	Snecma		
DE	Fokker	DE	MTU Aero Engines
DE	MTU		
DE	Dornier		
DE	MBB	IT	Fiat Avio
IT	Fiat Avio		
IT	Aeritalia		
IT	Alfa Romeo Avio	IT	Finmeccanica
IT	Senia		
IT	Agusta		
IT	Otobreda	IT	Aermacchi
IT	Aermacchi	IT/UK	Agusta Westland
IT	Agusta		
ES	CASA		
ES	AISA		

Figure 3: European Consolidation processes. Source: Alenia Aerospazio/AECMA 2001.

Alas, the managerial arrangement reached within EADS was very complex, with two Chief Executives (French and German) and two Co-

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provider of electronic systems to the Pentagon. EADS is a merger of Aérospatiale-Matra (France), Daimler Chrysler Aerospace (DASA, Germany) and CASA (Spain). EADS is horizontally integrated and engaged with the aerospace field.

Chairmen as well as with equal core shareholders (the French state and Lagardère Group and the German Daimler). In 2007, and in order to improve the management process of this defence colossus, Louis Gallois (French) has been appointed as CEO and Rüdiger Grube (German) as Chairman of the Board. According to Bonsignore, this overhaul of the executive structure “reflects exactly the same fastidious balance of ‘French’ and ‘German’ positions that was said to be the bane of EADS under the previous arrangement”,<sup>224</sup> but was nonetheless inevitable, given that at stakes were the national interests of the two countries. In 1998-1999, the golden years of European consolidations, the formation of the missile and defence firm MBDA through a merger of France, Italian and the UK companies should be remembered.<sup>225</sup> While there is a general Europe-oriented focus in industrial restructuring, the presence of a big defence industry has not always guaranteed a more pro-European stance, “the Italian aerospace industry, although involved in European collaborative programmes, still remains outside the umbrella of major European corporate structures”.<sup>226</sup>

On the civil sector, argues Vlackos, a process of horizontal integration has resulted in the creation of the Airbus Consortium (Aérospatiale - France, DASA -Germany, British Aerospace -United Kingdom and CASA -Spain): in this Company, the phases of design, procurement policies, production, testing and servicing are conducted centrally, so as to commit more decisively and more quickly to an overall package. Nevertheless, goes on the author, Airbus mirrors the drawbacks of a coordination led by diverse but equally powerful nation states, characterized by inefficient decision-making processes and fears of losing control over national companies.<sup>227</sup>

Aside from the mentioned horizontal integration processes, the European scenario has witnessed the creation or strengthening of

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<sup>224</sup> Ezio Bonsignore, 2007, p. 3. See also Gerrit Weismann and Peggy Hollinger “Companies Europe: Paris and Berlin chart shake-up for EADS”, *Financial Times*, June 28, 2007.

<sup>225</sup> See for a ‘political’ interpretation of defence mergers analysis Eugene Gholz, “Why Globalization Will not Affect the Defence Industry: Political Incentives against Cross-Border Defense Restructuring”, Unpublished, March 2002. Also, for an in-depth analysis of defence restructuring see Jean Paul Hébert, “L’Européanisation de l’Industrie d’Armement et l’Autonomie Stratégique de l’Europe”, *Arès*, 48, XIX, 2, 2002.

<sup>226</sup> “Europe’s Industrial Picture”, *Armada International*, 3, 2002, p. 6.

<sup>227</sup> Katia G. Vlachos, 1998, p. 15.

'national champions' (see figure above) among which it is possible to find the most powerful industries of the most powerful European states. These two strategies -national concentration and internationalization- were and still are the typical reaction of big companies to similar constraints.<sup>228</sup> This is not difficult to understand, given that most powerful companies, supported often by states, search to amplify their position within the market, "as a result of the increasing dominance of fixed costs within projects, production of first-rate weapon systems is becoming more concentrated in those richer nations whose governments can afford the up-front costs".<sup>229</sup> Such companies are Finmeccanica for Italy, DASA for Germany, Thomson and Aerospatiale Matra for France and BaE Systems for the United Kingdom.

As appreciated before, because of the importance of defence industries for the overall state's position in the system, it is unlikely that the process of rationalization can go across the national frontier without alarming national governments, "defence industrial collaboration can be industry or government driven, but states ultimately establish the framework for defence industrial competition, mergers and specific project collaboration".<sup>230</sup> On the other hand, the same governments will prop up vertical consolidations in an attempt at gaining bargaining power towards other European states, "the consolidation of the European industry began also as a government-sponsored effort, but government across Europe are increasingly persuaded that national industries cannot survive, given limited budgets...".<sup>231</sup>

A state will never, in principle, permit the abatement or a decrease in power of its national champion for competition reasons. This has led, even in cooperative projects, to the requirement of *juste retour*, a principle which hamper competition in assigning the work-share: "from the economic point of view, *juste retour* works like a cartel in which the participants divide market-shares between them".<sup>232</sup> According to this requirement, states that engage in a cooperative project will ask for an industrial participation that fits their

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<sup>228</sup> Elisabeth Sköns and Herbert Wulf, 1994, p. 47.

<sup>229</sup> David L. Kirkpatrick, 2004, p. 271.

<sup>230</sup> Norbert Wieczorek, "Transatlantic Defence Trade and Changing Defence Markets", *Draft General Report*, European Community, 2 September 1997, p. 3.

<sup>231</sup> John J. Hamre and Simon Serfaty, "The Future of the Transatlantic Defense Community", *CSIS Panel Report*, Center for Strategic and International Studies, 2003, p. 12.

<sup>232</sup> Andrew Moravcsick, 1990, p. 74.

financial contribution and the number of weapons system ordered: “maintaining the balance is arguably the primary, if undeclared, regulatory task facing the architects of the European armaments market”.<sup>233</sup> The ultimate end of this practice is twofold: preserving or creating jobs and assuring a reasonable work for the national industry. It should be emphasized, though, that while inefficient, the principle of *juste-retour* has been one of the leading arrangements enabling cooperative projects between European states.

While important, economic and industrial incentives alone have not rendered coordinated actions necessary; as it will be shown in the remainder of the chapter, political and strategic considerations play a paramount role.

### 2.5.3 Strategic motivations

Aside from economic and industrial pressures, strategic concerns made European states reflect on and opt for joint defence procurement initiatives.

These incentives were in place but the end of the Cold War opened up the opportunity to follow them. This is so because since the end of the Second World War, the security and defence policy of the European states was embedded within the Atlantic Alliance and the existence of a common external threat was enough stringent to require a common approach and to downplay strategic divergences among allies. The drawbacks of the demise of the Soviet Union were manifold: the Atlantic Alliance lost the bulk of its significance; the European Continent was no longer the main potential battleground but new trouble spots started challenging the stability of the system; the common enemy vanished and with him the common interests of the allies, that started to show divergent priorities and perceptions of the threats ahead.

All these facts inevitably brought to the table a deep re-consideration of the role of the European Union as an economic giant and as a possible stabilizer and independent actor in the world scene. For this to happen Europe had not only to speak about a Common Security and Defence Policy, but also to actually create the conditions for its formulation, the first and necessary one being to mould together operational requirements and to create interoperable weapon systems. Cooperation

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<sup>233</sup> William Walker and Philip Gummet, “Britain and the European Armaments Market”, *International Affairs*, 65, 3, Summer 1989, p. 433.

on defence procurement is therefore a paramount step on this direction. If this latter is not viable in the overall European landscape, a consensus should at least be reached among those European countries that possess relevant defence capabilities.<sup>234</sup> Against this opportunity, all the yet presented difficulties related to the 'security' nature of the issue area and the huge discrepancy of power among European states. The end of the Cold War started questioning the relevance of the American presence on the European soil. The debate around this consideration took ground in the United States where ever-present 'isolationist' positions came to the fore, and into the Continent where the reunification of Germany found more than one leader deeply concerned. American position on this side was controversial: while military troops within the European territory had to be withdrawn, the US wanted to avoid a 'militarization' of Europe outside of the Atlantic Alliance. The first conflicts of the '90s in the Balkans and in the Gulf made it clear that new threats overshadowed by the Cold War were arising: ethnic uprisings, breaking and rogue states and terrorism. Against these threats traditional strategies and equipments were pointless, "while it was anticipated that threat could be countered with lower levels of military force than in previous decades, the great variety of possible forms those threat might take implied that a wide range of capabilities would have to be maintained".<sup>235</sup> While NATO and the United States were slowly re-thinking their role in the new international context, Europe was eager to take a bigger stance on the security of the region and in that of other zones of its interest. In fact, the events of the '90s showed that while some threats could be of the same concern for the allies, some other could be interpreted differently, leading to different strategies and approaches, "in the new political and military context, often the American and the European governments have diverging priorities in the resolution of security issues. This means an extreme difficulty in achieving common requirements...".<sup>236</sup> In order to act autonomously, though, it was necessary to dispose of own military equipments "if we think that Europe should decide how, according to our perception, some interventions should be formulated, it is also necessary to have some

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<sup>234</sup> Jens Van Scherpenberg, 1997, p. 119.

<sup>235</sup> William Walker and Philip Gummet, 1993, p. 9.

<sup>236</sup> Alberto Trabalesi, "Evoluzione dei rapporti transatlantici nel settore della produzione industriale a fronte della costituzione dell' Europa degli armamenti", Collana CeMiss, 2000, p. 61.

autonomous capabilities because if we depend completely from the United States this possibility cannot concretize".<sup>237</sup>

Before considering the step undertaken by the European Union or by European states to foster a defence stance, the potential consequences that such a move could have on the Atlantic Alliance will be discussed. If an actor's leverage in the international context depends also on its potential ability to use force, an increased military stance could help Europe to be a more relevant actor in the world scene, "this approach would allow the EU to conduct military operations without relying on US assistance and it would also increase European influence over US decision about the use of force".<sup>238</sup>

European willingness to establish a true and independent defence might can be interpreted in two ways through the lenses of the Atlantic Alliance: either it can be seen as a threat to American dominance within it or it can be seen as a purposeful attempt at increasing the military contribution to the benefit of the Alliance. A realist argument, for example, would argue that cooperation among European states is mainly spurred by a desire to re-shape the imbalance against the United States.<sup>239</sup> While the US has publicly asserted that an autonomous European stance would have spoiled the meaning of the Atlantic Alliance by duplicating facilities, it is reasonable to think that its first concern was to loose some ground on European foreign strategy. As William Wallace points out, "American policymakers thus continue to give their partners contradictory signals, calling on them to shoulder more global economic responsibility while refusing to trust them to develop an autonomous political and military capacity or to pursue different foreign policy priorities".<sup>240</sup> In this sense, argues the author, if

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<sup>237</sup> Michele Nones, "Le Dinamiche dell'Industria a Produzione Militare in Europa", IAI, 2000, p. 3. [http://www.iai.it/sections/publicazioni/documenti\\_iai/doc\\_iai\\_2000.asp](http://www.iai.it/sections/publicazioni/documenti_iai/doc_iai_2000.asp)

<sup>238</sup> Kori Schake, "The United States, ESDP and Constructive Duplication", in Jolyon Howorth and John T.S. Keeler, ed., *Defending Europe*, Palgrave Macmillan, 2003, p. 108.

<sup>239</sup> Samuel P. Huntington, "The Lonely Superpower", *Foreign Affairs*, 78, 2, 1999, pp. 35-49. On this point see also Barry R. Posen, "ESDP and the Structure of World Power", *The International Spectator*, XXXIX, 2004, pp. 5-17. The author points out that because of the timing European defence cooperation is an answer to American hegemony and at least an attempt at being an alternative security supplier.

<sup>240</sup> William Wallace, "Europe, the Necessary Partner" *Foreign Affairs* 80, 3, 2001, p. 20.



the US pretends a burden-sharing within the alliance it does not seem to be willing to share decision-making as well. This seems controversial given the fact that America has always complained about the poor expenses on military defence faced by European states.

## EUROPEAN-US DEFENCE EXPENDITURE - GENERAL

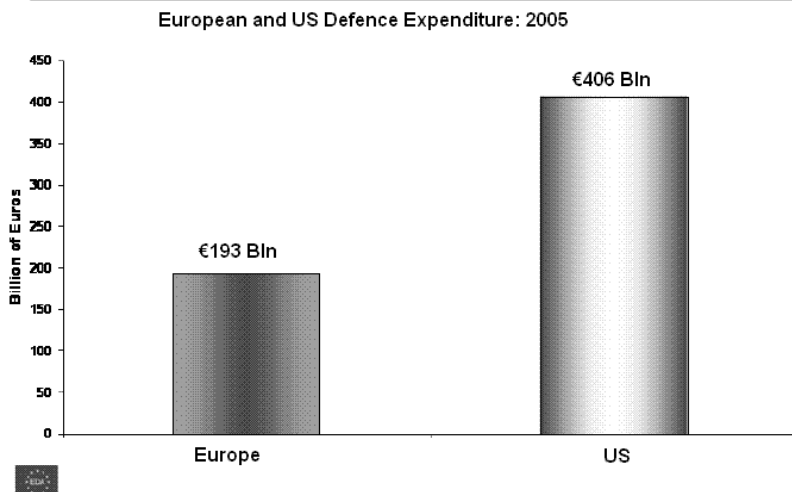


Figure 4: European Defence Expenditure. Source: European Defence Agency, <http://www.eda.europa.eu/genericitem.aspx?area=Facts&id=178>

The main argument advanced by European policy-makers was similar to the one proposed by Daniel Keohane and asserting that if managed in a sound way, endeavours to boost cooperation within Europe and with the Atlantic Ally are not in contradiction, because better European capabilities would mean a strengthened NATO.<sup>241</sup> The problem,

<sup>241</sup> Daniel Keohane, "The EU and Armaments Cooperation", *Working Paper*, Centre for European Reform, December 2002, p. 5. See also on this argument Ten. General Gianni Botondi, "L'Evoluzione della politica Europea degli Armamenti e il Legame Transatlantico, CASD, June 7, 2004. For an in-depth consideration of the positive consequences of a more effective European Security and Defence Policy see Stanley R. Sloan, "The United States and European Defence", *Chaillot Paper 39*, Institute for Security Studies, Paris, April 2000, pp. 40-42.

therefore, seemed not whether an European capability would have endangered the Alliance but whether this could have shifted the balance within it.

Given the huge gap in military expenses compared to the United States actions had to be taken not only to devote more national resources to defence but also to pool them together so as to derive greater benefits out of them. As Yost explains, the US-European capabilities gap should be defined as an aggregate of many gaps which are sometimes technological, sometimes involve investment and some others procurement procedures. These gaps contribute to create the basis for US qualitative and quantitative superiority in military might.<sup>242</sup> The military gap is determined by different budgets among European states but also by different priorities envisioned: as an example, “the old French concern about technology gaps is still very much alive. As a result, the French government places greater emphasis than its British counterpart on the need for substantial expenditure on cooperative R&D-in defence and civil field-and for creating a European presence in defence technology”.<sup>243</sup>

Stanley Sloan maintains that the strategy adopted by the US towards a European defence inserts itself in a more encompassing understanding of its position in the world and those of its allies.<sup>244</sup> In this sense, after the end of the Second World War the US has forged its defence policy so as to promote its short and long term interests. During the Cold War, American control of European defence posture was permitted also by its easily penetration within the European market, determining a strong source of dependence. To the contrary, European states had to

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<sup>242</sup> David S. Yost, “The US-European Capabilities Gap and the Prospect for ESDP”, in Jolyon Howorth and John T.S. Keeler, ed., 2003, p. 83. It is fair to emphasize that while recognizing a too-limited defence expenditures by European states the real problem among transatlantic allies, according to some authors, is not one of resources commitment, since the EU disposes of a sound Industrial and Technological Base but one of “long-term commitment” of the allies, and especially of the US, see on this point Richard A. Bitzinger, “Overcoming Impediments to Transatlantic Armaments Collaboration”, *The International Spectator*, XXXIX, 2004, pp. 83-94 and Vance D. Coffman, “The Future of the US Defense Industry. Partnership with our Allies”, *Vital Speech of the Day*, 65, 3, November 15, 1998, pp. 76-78.

<sup>243</sup> William Walker and Philip Gummatt, 1989, p. 428.

<sup>244</sup> Stanley R. Sloan, 2000, p. 9. See also on this point but basically related to the US defence budget Harvey M. Sapolsky and Eugene Gholz, “The Defense Industry’s New Cycle”, *Regulation*, 24, 4, 2001, pp. 44-49.

face the almost closed American defence market: aside for the United Kingdom it was impossible for European states to accede to the large American market. To underline further the point, Ethan Kapstein wrote in 1994 that the US found itself in a monopoly position as for arms trade: this privileged condition advanced the opportunity to mould the worldwide economic and security contexts.<sup>245</sup>

Until the mid '90s, American defence market has been roughly locked, with the Pentagon awarding contracts mainly to US firms "not only are Boeing, Lockheed, Raytheon and Northrop-Grumman large firms..., they also have the advantage of serving a large protected national market".<sup>246</sup> Aside from reasons alluded to as of "national security" concerns, there exist technical as well as fiscal barriers in favour of a deeper cooperation among the US and Europe: technical regulations, especially those concerning foreign direct investment in the United States, sometimes differ from the European and international ones, rendering complicate to export in the US market. Also, fiscal requirements make it particularly difficult for European companies to work in and accede to the American market, "American protectionism is so powerful that the quantity of formalities and procedures that have to be gone through in attempting to form a partnership in the United States, given the benefits that these might bring, act as a deterrent".<sup>247</sup> The MEADS project, which consists on the development of an antimissile system and that was established among the United States, Italy and Germany, has witnessed delays and difficulties due mainly to the release of 'technological information' to partners regarding the chosen American interceptor missile Patriot.<sup>248</sup> American definition of

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<sup>245</sup> Ethan B. Kapstein, "America's Arms-Trade Monopoly: Lagging Sales will Starve Lesser Suppliers", *Foreign Affairs*, 73, 3, 1994, p. 13.

<sup>246</sup> Derrick J. Neal and Trevor Taylor, 2001, p. 338.

<sup>247</sup> Gordon Adams, Christophe Cornu and Andrei D. James, "Between Cooperation and Competition: the Transatlantic Defence Market", *Chaillot Paper 44*, ISS-EU, Paris, 2001, p. vii. For a consideration of laws concerning foreign direct investments see Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the United States*, Third Edition, Washington DC, IIE, 1995.

<sup>248</sup> Alberto Trabalesi, 2000, pp. 70-71. For a good overview of the problems facing partners in MEADS see Jeffrey P. Bialos and Stuart L. Koehl, "Forging Transatlantic Consensus on Missile Defence", *The International Spectator*, 4, 2003, pp. 5-19. The authors point out that the more relevant problems among partners regarded funding, technology transfer and lukewarm governmental support.

national security determines a strong limitation on technical release in cooperative projects. This program (MEADS) highlights the shortcomings and the challenges characterizing transatlantic defence cooperation, "the central problem lay not in the requirements and scope for cooperation, but in the work-sharing/cost-sharing division".<sup>249</sup> More generally, again, the issue of cooperation brings to the table 'distributional issues': if an effective international cooperation is in principle valuable for all the actors involved, the allocation of the gains poses huge concerns, "there is perceived inequity in tradeoffs, for example, between US jobs and profits on the one hand and the desire of an ally for transfer of a key US technology".<sup>250</sup>

Against this background, transatlantic defence cooperation has dwindled in the last years, "increasingly, for major defence acquisition programs, such as air transport and missiles, European governments are showing an inclination to "buy European", while the US tradition of "buy American" remains as hard as ever".<sup>251</sup> This latter element is strongly emphasized within the American landscape where the likelihood to rely on foreign suppliers is negatively perceived. Some scholars asserts that there exists an increasing aversion from both the American and European governments to engage in technological and industrial cooperation. Also, it seems that the increasing speed of globalization has determined new waves of protectionism among transatlantic allies so that governments create obstacles to cooperative endeavours.<sup>252</sup> In particular, and as mentioned before, the greatest element of controversy regards technological capabilities that the US is scared to share, even if a cooperation on this ground would undoubtedly strengthen the military might of the Alliance "there are clearly advantages to greater flexibility in the technology transfer regimes between these two continents and significant downsides to either shutting itself off from the technologies available to the other side. A flexible regime across the Atlantic for such technology transfers,

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<sup>249</sup> David C. Earnest and Robin Niblett, 1995, p. 13.

<sup>250</sup> Jack M. Seymour Jr., "International Arms Cooperation. A report by the Atlantic Council of the USA (highlights)", *European Business Journal*, 11, 1, 1999, p. 19.

<sup>251</sup> Gordon Adams, "Transatlantic Defense-Industrial Cooperation and American Policy", Paper prepared for the IISS/CEPS European Security forum, Brussels, 25 November 2002, p. 1.

<sup>252</sup> Deborah D. Logsdon, "European Community Defense Industries: Threat to US Competitiveness?", *Executive Research Project S44*, The Industrial College of the Armed Forces, National Defense University, Washington DC, 1993, p. 5.

combined with more common barriers to its dispersal elsewhere, could be in the interest of both”.<sup>253</sup>

Paying attention to the way in which the United States will keep its technological might is very important in order to assess its proclivity towards cooperation with Europe: being the technology leader is paramount as this permits to control and dominate potential conflict situations as well as to force relations with concurrent producers.<sup>254</sup> In fact, by maintaining its “qualitative superiority” the US is likely to strengthen its position as security supplier.<sup>255</sup> Transfer of technology would be detrimental to US industries “American industries have overwhelming competitive advantages against the European ones, being leaders in most high technology sectors. US contractors are keen on preserving this leadership, and they are assisted in achieving that objective by the technology export policies of the Pentagon”.<sup>256</sup> Cooperation, though, would not only create a problem to American industries, but also to American relative dominance on this sector. Thus, as Michele Nones observes, “the ideological explanation is the concern for possible technological transfers to third countries, but in reality parts of the US administration fear that European industry could improve qualitatively”.<sup>257</sup> The emphasis posed on the technologically-based Revolution in Military Affairs (RMA) should be interpreted also along these considerations. Besides, utilisation of American technology for projects destined to third countries is subject to export-regulations by the United States “the export licence bureaucracy in the State Department resists any loss of control over this area of policy, and wants to retain the leverage that licence decisions can provide for broader foreign policy objectives.”<sup>258</sup>

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<sup>253</sup> Gordon Adams, 2002, p. 3.

<sup>254</sup> Jean Paul Hébert and Laurence Nardon, « Concentration des industries d’Armement Américaines: Modale ou Menace? », *Cahier d’études stratégiques*, 23, Centre interdisciplinaire de recherches sur la paix et d’études stratégiques, 1999 p. 92.

<sup>255</sup> Jens Van Scherpenberg, 1997, p. 105. On the importance of preserving US qualitative comparative advantage to face potential rivals see Robert L. Paalberg, “Knowledge as Power. Science, Military Dominance, and U.S. Security”, *International Security*, 29, 1, 2004, pp. 122-151.

<sup>256</sup> Katia G. Vlachos, 1998, p. 13.

<sup>257</sup> Michele Nones, “A New Bi-Continental Approach to Transatlantic Defence Cooperation”, *The International Spectator*, 42, 2, June 2007, p. 290.

<sup>258</sup> Gordon Adams, 2002, p. 22.

The above-mentioned consolidations processes taken forward by the United States, and increasing its competitiveness together with its technological leadership, meant not only a monopoly on defence markets but also a strong leverage on strategic issues: with the United States determining the speed of technology and weapons procurement European states ended up being dependent on the US. This was another reason reinforcing European states' willingness to advance a European independent defence might. Through its arms market monopoly and through the Atlantic Alliance, the US has tried to control the European defence pillar, as the proposal of the well known Combined Joint Strategic Force showed.

Now European states are searching to penetrate the American market because of the potential returns this can bring about, but the process is all but easy, and this has strengthened the 'European' card: "had they not been confronted by increasing protection of US assets and markets by the Pentagon, they might have been less willing to give their backing to European initiatives".<sup>259</sup> Nevertheless, some scholars maintain that the American approach is not unidirectional and changes in the administration can change the level of cooperation, "commentators doubt that BaE acquisition of Lockheed-Martin's Control&Aerospace Electronic Systems business in 2000 would have been sanctioned if president Bush had been in office and few observers feel it likely that any defence technology will be transferred out of the USA in the current climate".<sup>260</sup>

In order to compete with the American giant, to face the American arms monopoly and to build up an own defence might the European states have gone forward with industrial restructuring processes, propping up 'buy European' statements or 'European preference' ones, "this US pre-eminence is buttressed by the absence of a "two-way street" between Europe and the US in terms of arms purchases, partly due to the Pentagon's Congress-mandated 'buy American' practice".<sup>261</sup> For all these reasons, industrial concentration processes and cooperation practices have not only been spurred by economic imperatives, but also, and somehow more importantly, by strategic ones. This fact underlines once again the role states play in this issue-area, "over the past twenty-five years collaboration has emerged as the

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<sup>259</sup> William Walker and Philip Gummet, 1993, p. 6.

<sup>260</sup> "The Defence Industry in the 21<sup>st</sup> Century: Thinking Global...or Thinking American?", PriceWaterHouseCoopers, p. 21.

<sup>261</sup> Katia G. Vlachos, 1998, p. 1.

principal European response to the dual problem of rising weapons costs and ensuring the maintenance of some national defence capabilities in the face of US competition and technical superiority".<sup>262</sup> Defence markets and procurement processes are for those reasons some of the hottest issues among transatlantic allies, "the same broad concerns shared by large European producers apply to the US as well—preserving a domestic industrial base, technological superiority, export markets, security of supply plus a stated goal to retain a strategic defence technology superiority. The greatest difference between the two is the size..."<sup>263</sup>

European industrial restructuring process is not likely to transform Europe in a 'fortress' as some authors have pinpointed, both because this would not be beneficial and because even the more self-reliant states are sometimes keen to cooperate with the United States. The idea of a fortress, explains Kehoane, is not advantageous for Europe, since that would mean inability to enter the American market; also, this would be strongly opposed by those states which are not main producers of armaments.<sup>264</sup> Everything would depend on the two sides' behaviour vis-à-vis defence issues, "if fortress America persists, and if Europe develops a common armaments policy in opposition to the United States, there is a risk of confrontation between two closed systems, with damaging consequences for relations within industry in particular, but also for Transatlantic Relations in general".<sup>265</sup> While it is important to be competitive against the United States it is also apparent that a certain link with the transatlantic ally, at least for strategic and technological reasons, is inevitable. On this point Gordon Adams stresses that if cooperation in the European context is somehow inevitable, in the same vein more interoperability between transatlantic allies is necessary, for

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<sup>262</sup> Ethan B Kapstein, 1991-1992, p. 663.

<sup>263</sup> Katia G. Vlachos, 1998, p. 10.

<sup>264</sup> Daniel Keohane, 2002, p. 5. On this point see also Robert Wilkie, "Fortress Europa: European Defense and the Future of the North Atlantic Alliance", *Parameters*, Winter 2002-2003, pp. 34-47 and "Business: Revamping Fortress Europe; Europe's Defence Industry", *The Economist*, 367, June 21, 2003, p. 76.

<sup>265</sup> Burkard Schmitt, ed., "Between Cooperation and Competition: the Transatlantic Defence Market", *Chaillot Paper 44*, ISS-EU, Paris, 2001, p. 1. Of the same author see also "European and Transatlantic Defence-Industrial Strategies", prepared for the IISS/CEPS European Security Forum, Brussels, November 25, 2002.

strategic, economic and technological reasons; nevertheless, political issues can develop in such a way as to harm transatlantic solidarity.<sup>266</sup>

## **2.5.4 Common defence procurement to help European interoperability**

Should Europe be dependent on the United States? Or, what degree of dependence should it keep? As stated before, the possibility to develop a common European defence and security policy will permit to engage in operations in which the United States is not willing to participate, or will permit to enhance Europe's leverage on the international chessboard. Assessing the aims European states are going to pursue in defence and security issues is of the outmost importance in order to grasp how cooperation on defence procurement can deal with these objectives. This implies perceiving which challenges, among those on the forefront, European states decide to face in a common way.<sup>267</sup> Of course, for the aim of this work, it is paramount to consider in which manner a coordinated procurement process can ease the path toward a common defence policy.

A common European Defence and Security Policy was envisaged both to promote regional cooperation with neighbour countries and, in a more operative sense, to engage in out-of-area military operations to downplay trouble spots according to the Petersberg Mission ("humanitarian and rescue, peace-keeping, peace enforcement and crisis management" operations). Among civil and military issues it is obviously this second aspect that is the top concern of this research. It is fair to say that aside from the Petersberg missions, envisaged in the first years of the '90s, the new challenges on the forefront require a deep European re-thinking of its defence stance; in particular, what has been amplified is the urgency to concretize this latter, to shape not only a European defence policy but also the means to bring it about, "for too long Europe has been more interested in the institutional/political structures of defence, important though they may be, and by and large has ignored the threats that have been steadily increasing in the world

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<sup>266</sup> Gordon Adams, "Between Cooperation and Competition: the Transatlantic Defence Market", *Chaillot Paper 44*, ISS-EU, Paris, 2001, p. 3.

<sup>267</sup> Marco Clementi, *L'Europa e il Mondo*, la politica estera, di sicurezza e di difesa europea, il Mulino, Bologna, 2004, p. 118.



beyond".<sup>268</sup> A great contribution to this thinking was provided by the poor performances of the European states in the Balkan wars. In particular, in that case, divergent positions among states hampered the formulation of a consistent strategy, and the total incapability to coordinate operations on the ground showed the ineffectiveness of separate actions.

As said before, the US approach to the rise of a European defence policy was unclear: while the United States approved the improvement in military expenditures, it could not accept a disengagement of Europe from the Atlantic Alliance. On the contrary, European states started to perceive the importance of an autonomous defence stance, but were aware, at the same time, that the Atlantic alliance was most of the time decisive in crisis resolution. Moreover, positions within the European context were as divergent towards the US so as to require a cautious approach. The compromise reached within the Atlantic Alliance was to foster the creation of a European pillar within NATO, allowing to pursue operations in autonomous contexts with the armaments of the Alliance. If this was an optimal compromise for the functioning of NATO in this post-Cold War role, the same created tensions among those European states more eager to promote a truly separable and separate military stance. In fact, while it was clear that the provision of military equipments did hamper incentives to their production, it was also apparent that the Atlantic Ally kept the key of European interventions by *de facto* authorizing or not the provision of armaments for military operations.

The role played by the United Kingdom on this question cannot be overlooked; in this sense, even the Saint Malo agreement (1998), which was celebrated as a decisive shift in Britain foreign policy in favour of Europe, has to be looked through other lenses. For example, as Clementi points out, Great Britain's backing of a European defence stance was animated by the consideration that European weakness was a danger to the overall NATO's mission out of area. Supporting the process toward a European defence would have meant strengthening and improving European performances in troops transportations and command and control activities. This would have propped up

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<sup>268</sup> Julian Lindley-French, "European Defence: New threats, New Missions, New Actors", *Military Technology*, 6, 2002, p. 10.

European defence and security identity within NATO,<sup>269</sup> an attempt this latter at developing the mounting European military might on the right track. In fact, the agreement stated that the principal European security responsibility remained a concern of the Atlantic alliance.

The UK's policy maintained a pro-Atlanticist stand with respect to France and Germany: this fact underlines once again the different interests European states did exhibit, "the intergovernmental decision making nature of CFSP was considered to have hampered progress because of a divergence of national interests, and in particular among the three main EU players: the UK, France and Germany".<sup>270</sup> Nonetheless, in the European Summits of the late '90s, an ever-growing willingness to proceed autonomously in the field of armaments and command and control of operations was underlined, rendering more and more dubious the compromise reached within the Atlantic Alliance. In the eyes of European states, all the Summits of those years paved the way for an absolutely European dimension of their armament policies, concretized also by the mergers realized among their defence industries.<sup>271</sup> In fact, the Cologne Summit (June 1999) restated what expressed in Saint-Malo and advanced the progressive integration of the WEU (Western European Union) functions within the EU. The turning point, on this side, has been represented by the Helsinki Summit (December 1999), where a Common Rapid Reaction Force, deployable within 60 days through aerial and naval support, was envisioned in order to take forward civil as well as military operations. This step was surely accelerated by the shared perception of soaring threats and dangerous scenarios that required a rapid and cooperative response, "now that European armies may be called upon to operate in protracted missions over long distances, the penalties for low levels of harmonization and standardization are more severe".<sup>272</sup> The idea behind this argument was that new treats required cooperation and this latter required pooling resources, "without NATO engagement that quantitative threshold had to be accompanied by progresses on the qualitative level, that European engaged themselves to realize to make the rapid reaction force deployable, sustainable,

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<sup>269</sup> Marco Clementi, 2004, p. 158. Within the St. Malo Summit France and Great Britain recognized that the European Union should have created the capacity to take forward autonomous actions, sustained by credible military forces.

<sup>270</sup> Claire Taylor, « European Security and Defence Policy : Developments Since 2003 », *Research Paper 06/32*, House of Commons Library, June 8, 2006, p. 7.

<sup>271</sup> Marc M. Reyman, Rapport, Assemblée Nationale, December 15, 1999.

<sup>272</sup> Keith Hayward, 1997, p. 3.

interoperable and guided by an adequate command and control structure on the field".<sup>273</sup>

What was needed, therefore, was coordination among European states in what was intended as a completely autonomous European operation with a European command and total European responsibility. In order to follow on with European objectives it was firstly necessary to increase military expenses, a need this one difficultly achievable given the hard financial situations of European countries. It was also paramount to project forces, and coordinate them in a consistent and efficient way. A common procurement could have somehow marginalized, if taken forward efficiently, the problem determined by scarce financial resources. As seen before in the economic and industrial sections, if states join their procurement efforts they can increase production by favouring economies of scales and spreading out fixed costs. This would sustain a moderate expense for defence and would provide an indirect effect: by being more competitive in the world scene there could be the possibility to partly breakdown American monopoly in armament sector.

Aside from that, strategic reasons seem to play an overwhelming role in European states' actions; as explained from the words of a German official, "there is no other way for Germany than to intensively look for cooperation with partner nations. This is not only because of decreasing numbers in procurement orders in all nations, but also since now and in the future, military operations will be conducted multinationally. Prerequisite for successful operations is the interoperability of military equipment among states. The best way to achieve this is through the use of commonly developed, produced and procured defence equipment";<sup>274</sup> in the same vein, "a high degree of interoperability, co-ordination and use of agreed standards will be vital to achieve a unity of effort and purpose...the best form of interoperability for equipments and systems is commonality, which also matches the defence economic imperative to consolidate the demand side of the European defence equipment market".<sup>275</sup>

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<sup>273</sup> Marco Clementi, 2004, p. 163.

<sup>274</sup> Brigadier General Peter Kuhn, "Germany's International Cooperation for Army Equipment and Technology", *Military Technology, Special Issue*, 2002, p. 44.

<sup>275</sup> "European Defence Capability and Capacity Needs, a Long -Term Vision", *Military Technology*, 12, 2006, p. 23-24.

The problem to be faced amid a general consensus was how to reconcile states' different exigencies, "while there is dialogue, now often formally structured, among European armed forces about what kind of weapons they want, there are still gaps or deficiencies in the process of formulating requirements, setting specifications and implementing a succession of defence programmes to guide European defence production and eventually build a more integrated European defence market".<sup>276</sup> While clear-cut, the aim of pooling resources so as to get improved results to satisfy all the economic and strategic objectives was difficult to reach, "the obstacles which hamper a more homogeneous and unified European demand are huge and need to be related to the differences in strategic national exigencies, to the underlined difference in resources and to the fact that national procurement policies depend for the most on political and strategic considerations rather than economic ones".<sup>277</sup> Political and strategic considerations are more relevant than economic ones because of the willingness to preserve the own sovereignty and use defence capabilities to fulfil a series of interests related to the national dimension of the state. Against this background, opposite tendencies persist: one leading to pooling forces and harmonizing requirements, and the other leading to preserve the own separate stance and influence events through the own structural power.

In general, the ideal solution for the creation of an efficient and sustainable common procurement would foresee: first, a common operational requirement definition that can result from a clear assessment of the means necessary to face the challenges ahead, and second, perfect competition on the contract awarding process. None of the two things are observed by most of the defence procurement agencies. Nonetheless, the point to be stressed is that both the definition and harmonization of common requirements, or the joint procurement of an equipment would basically ask for a willingness to face challenges jointly, and the creation of interoperable armaments: "Europe must be able to provide common responses to global threats, by defining harmonised operational requirements, and, down the road, by looking at ways of bringing together resources and implementing

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<sup>276</sup> Keith Hayward, 1997, p. 6.

<sup>277</sup> Michele Nones, Stefania Di Paola and Sandro Ruggeri, "Il Processo di Integrazione del Mercato e dell'Industria della Difesa", *IAI Quaderni*, Istituto Affari Internazionali, Maggio 2003.

more effective procurement policies".<sup>278</sup> This process would strengthen the cohesiveness of European states by crystallizing the idea of work-sharing. The more national structures and armies are integrated in multinational structures the more the need for interoperability among their weapons.

Standardization refers to common specification of products and services but also of contractual arrangements, legislation compatibility and interoperability of complex systems, "the close international intertwinement in combined missions, especially within the framework of international crisis management, is considerably facilitated by the availability of similar or at least compatible equipment".<sup>279</sup> OCCAR, (*Organisation Conjointe de Coopération en Matière d'Armement*), the organization that would be analysed later on, should be interpreted as an attempt at building an armament agency, "the effective creation of OCCAR...would set a stone to the European defence architecture".<sup>280</sup> The idea was that OCCAR should have encompassed the procurement of joint European programmes necessary for out-of area operations: their management through OCCAR responded to the necessity of rationalizing arms production among European states as well as of giving weight to common strategic objectives. Armaments such as BOXER armoured vehicle, FREMM frigates or especially the A400M military transport aircraft –currently managed within OCCAR– answered this attempt.

A common definition of operational requirements assures interoperability among states and therefore an improved coordination capacity, "the large European co-operation projects launched under the auspices of OCCAR will lead to a better standardization of the equipment and therefore to an increased interoperability... Moreover, it opens interesting co-operation prospects as far as logistics is concerned, not only for the daily management but also during operations".<sup>281</sup> General Cardinali, explains that if standardization represents the highest level of armaments commonality among states, this latter is very difficult to achieve; instead interoperability permit to work and act together even without identical weapons systems. This is

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<sup>278</sup> Admiral Gianpaolo di Paola, "Development of the Armament Policy in Europe" *Military Technology, Special Issue*, 2004, p. 18.

<sup>279</sup> Brigadier General Peter Kuhn, 2002, p. 38.

<sup>280</sup> Marc M. Reymann, 1999, p. 26.

<sup>281</sup> Major General Guido Andries, "OCCAR Membership-Added Value for a country with a limited defence budget and a small-scale arms industry", *Military Technology, Special Issue*, 2004, p. 14.

a more likely scenario, given that even in cooperative programmes states always adapt a basic programme to national requirements.<sup>282</sup> States can act together when they are able to get and keep in contact with each other and have a common logistic support. In the case of the military transport aircraft (A400M), states agreed to define common requirements for the building of a basic aircraft: in this case interoperability will enable states to act in common, to pool resources to work together, to reduce the costs of the logistic support and to permit different nations' equipments to operate on the same vehicle. As Brigadier General Peter Kuhn's points out, to take forward common projects, a compatible conceptual planning among participating states is needed together with early and timely process of harmonization requirements; scheduled development and production phases; funds guarantee from participating states; sound governmental and industrial cooperation process and resolute political will.<sup>283</sup> Similarly, Peter Struck maintains that "the right approach is to exploit means of European cooperation in the armament sector too, so that national resources can be focussed and synergisms achieved".<sup>284</sup> As it will be seen later on, OCCAR pointed exactly in this direction.

The aim of this section was to highlight the strategic incentives leading to cooperation among European states. Aside from the controversies existing with the Atlantic Ally there seems to be a willingness to forge a truly European defence capability: for this to happen states should be able to work together, and this depends significantly on decisions for joint procurement processes. In the following chapter it will be shown that, amid states' declarations and commitments to coordinate weapons acquisition and management process, there persists a general reticence to engage effectively in a truly coordinated path.

## 2.6 Conclusion

This chapter has provided background information regarding the nature and the peculiarities of defence procurement. Specifying the features of this subject-matter is paramount both to complete and make

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<sup>282</sup> General Nazzareno Cardinali, Interview, November 27, Bad-Godesberg, Bonn, 2007a.

<sup>283</sup> Brigadier General Peter Kuhn, 2002, p. 44.

<sup>284</sup> Peter Struck, "An Integral component of European Security and defence Policy", *Military Technology, Special Issue*, 2004, p. 10.

consistent the theoretical part and to set the stage for understanding the type of regime existing in the European context.

The first step undertaken has been to stress the relevance of defence procurement for the general security of a state: the acquisition and management of armaments has always been conceived as a 'national domain' issue. The security nature of defence procurement is underlined by the fact that states have searched, as much as possible, to procure arms by themselves: actually this would have strengthened the industrial and technological base, assured a security of supply, curbed dependence on foreign supply, conferred prestige, power and leverage and provided jobs. The chain that links defence procurement with the structural power of a state is apparent: the more powerful a state the more able to pursue all these objectives. Given the relevance of defence procurement, states have searched to drive this latter on preferred directions even when these did not bring about efficient results; by their own characteristics defence markets are totally different from traditional ones and their procedural mechanisms cannot be analysed along a pure economic reasoning. This statement has been underlined in the second section, assessing both the possible procurement strategies and the phases through which the process is divided. From requirements definition to the In-Service Support phase the procurement process poses numerous challenges to and request strong commitment by national states. As an example, to face the huge investments in research and development needed to create prime contractors big enough to carry forward the programmes, states need to be deeply engaged in the procurement process.

The different strategies available for procurement depend on the power of each state; in this sense the United States can decide to be self-reliant or to sign co-production or co-development arrangement with other states. It has been pointed out that the US has searched to choose those strategies better able to preserve its power position within the Alliance. Instead, the only alternative for weak states has been to buy weapons off-the-shelf, relying completely on other states' supplies.

The third section has analysed how cooperation has been tackled in the past within NATO and among European states: while the US has employed cooperation as but another strategy of preponderance European states have coordinated principally for political reasons, to sustain the own national industry and to promote all their security objectives. This has ruled out cooperation on pure economic motivations, since duplications in facilities and in investments have determined huge inefficiencies. The lack of a political will and the

incidence of divergent positions towards the Atlantic Ally have hampered an 'institutionalized' cooperation process; anyhow, the lessons of the past are relevant because they can highlight the major challenges arising within a cooperative framework and can outline the pros and cons of coordinated actions.

In particular, the lesson of the past may be of the paramount importance given today pressures for coordination. As the fourth sections has highlighted with reduced defence budgets and increased costs for weapons coordination can be a useful strategy to meet defence requirements. A brief industrial outlook has also drawn attention on how consolidation and restructuring processes have taken ground within the European landscape. Notwithstanding the emergence of huge national champions and limited transnational mergers and acquisitions, industrial cooperation, favoured by a positive contribution of national states, has emphasized the inevitability of more concerted approaches toward defence. The birth of entities such as EADS or Airbus within the European context does exemplify the willingness to abate costs as well as to compete effectively with American giants.

The last section has argued that cooperation on defence procurement can be looked at as a matter of tension in transatlantic relations: after the end of the Cold War and the loss of the common threat, allies have exhibited divergent priorities and this has motivated a more European-focused understanding of security and defence matters among European states. A militarily strengthened Europe would have more influence on the international landscape and a soundly equipped Europe would permit autonomous interventions. For this to happen the traditional American dominance on defence matters and particularly on technological might should be somehow discontinued; on their side European states have to engage more actively in coordinating operational requirements and procurement efforts so as to assure interoperability of their armies. This was the argument behind OCCAR's creation, a multinational agency for the acquisition and management of joint European programmes.

Because of the threats ahead and because of reduced defence budgets states can no longer aspire not to cooperate on defence procurement: the mutation of the international context has brought to light new constraints on states' margin of manoeuvre so that states feel the necessity to coordinate their actions. This is not as to say that past divergences among states and the willingness to promote own interests have been eradicated. Instead, coordination is a strategy for states to



achieve their preferred outcomes and the divergent interests of each state are made apparent when struggling to choose the coordination point.

## Chapter 3

# The defence procurement regime

### 3.1 Introduction

The aim of this chapter will be that of analysing the regime on defence procurement existing within the European context. From the first chapter it should be clear what it is meant with 'regime' and the peculiarities of a likely structure on security issues. In the first part of this chapter more details will be provided about the principles, norms, rules and decision-making procedures characterizing the regime on defence procurement, emphasizing that these are not derived and determined by a superior and an objective morality but by fundamental interests and states' structural power.

In presenting the regime, the first and paramount consideration calls for a necessary distinction between the initiatives inserted within the European Union context and those that instead are out of it. This would permit to underline how, in fields regarding security, the role of more powerful actors and their interests gain a particular relevance. Within the European context it is possible to cite important arrangements such as the Green Paper on Defence Procurement issued by the European Commission, and the related Interpretative Communication and Directive, or structures such as POLARM and EDA. This latter Organization is what looks more like an Armament Agency among European states: this does not constitute the regime on defence procurement, since it deals with a much broader array of issues, but it has among its priorities some objectives deemed paramount for the harmonization and rationalization of procurement practices. Its effectiveness, though, remains to be seen.

Outside of the European context the main initiatives on defence procurement have been WEAG, that did expire in 2006, LoI and OCCAR. In particular, these latter arrangements have been of the paramount importance, one mirroring the demand and the other the

supply side of defence procurement. Their small membership adds to their efficiency but their ‘intergovernmental’ rule poses completely under political control the entire procurement process and therefore each initiative to speed up further harmonization. Moreover, these agreements do encompass only the most important defence producers within the European landscape, *de facto* ruling out the participation of minor states. This, again, has permitted the achievement of some important thresholds albeit eschewing the image of a truly European defence procurement approach.

In the remainder of the chapter a quick overview of the four major defence powers in Europe will be undertaken so as to perceive their relational divergences, their position within the European context and the available options at hands on defence procurement. France and the United Kingdom will be compared as for power and defence capabilities; also, their divergent interests and the strategies pursued through defence procurement highlighted. Germany’s changed defence posture and capabilities will be underlined together with its favourable position within the European landscape. A less favourable position is that of Italy, which shows the lowest defence profile among the other great powers. Italy’s uncertain path towards European defence has not helped its image as a reliable and fundamental partner.

These states’ framing will be the linkage point between the theoretical and the empirical part that will follow, and will provide this latter with an informed introduction about the different reasons and motivations leading to the creation of OCCAR.

### **3.2 The regime on defence procurement: principles, norms and rules**

As Krasner points out, regimes are “a bunch of implicit or explicit principles, norms, rules and decision-making procedures around which states’ expectations converge in a given area of international relations”.<sup>285</sup> In particular, principles explain the objectives that members states are supposed to follow. Before enlisting the principles of the defence procurement regime it is important to stress that principles, as well as norms, should not be seen as dictated by absolute and morally compelling values; instead they are determined by common interests among actors. In the defence procurement case,

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<sup>285</sup> Stephen Krasner, cited in Robert O. Keohane, *After Hegemony*, Princeton University Press, New Jersey, 1984, p. 57.

principles can be the value of standardization and harmonization of defence equipments and the value of an European defence might to face world challenges.

Norms derive directly from principles and specify them. In the case under review, for example, states should progressively contribute to the creation of a political Europe by investing more on defence and on research and development, by jointly defining operational requirements and by preferring European Cooperative projects. Rules and decision-making procedures indicate in details states' rights and obligations. As it will be shown later on, it is complicated to make rights and obligations weight because regimes do not create a supranational entity that could guarantee norms safeguard. In the case of security regimes it is even more difficult to verify actors' compliance: agreements are often minimal and states do exhibit divergent positions on how to act, and are difficultly eager to give in part of their sovereignty. The lack of measurement and compliance instruments to monitor the steps undertaken will show how, at least within the context of the European Union, the security regime is weak even if desirable. Summing up, "norms tell us why states do cooperate, rules tell us which fields cooperation covers and procedures answer the question of how should cooperation been taken forward".<sup>286</sup>

Before considering the initiatives advanced within the European Union framework one point cannot be overlooked: the difficulty in establishing European policies in defence procurement are underlined by the lack of a compelling Communitarian approach in defence matters. The Treaty that establishes the European Community (TEC) states that defence market is embodied within the arrangements of the internal market, subject, though, to article 296 (ex 213). In fact, this article foresees a series of derogations to the setting of a free and competitive market in defence issues when reasons of "national security" are invoked: in these cases states are not required to follow the rules of the internal market. This shortcut has permitted to adapt and mould defence matters to the protection of particular interests and to the disadvantage of a more open, competitive and efficient market, "member states have employed that article to exclude defence almost completely from the European integration process and to organize their

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<sup>286</sup> Ernst B. Haas, "Why Collaborate? Issue-linkage and International Regimes", *World Politics*, 32, 1980, p. 397.

defence markets on a national basis”.<sup>287</sup> As abovementioned, article 223 of the Treaty of Rome provides specific exemptions to competition in the European market: in particular, point A specifies that “no member shall be obliged to supply information the disclosure of which it considers contrary to the essential interests of its security” and also “any member state may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production or trade in arms, munitions and war material...”.<sup>288</sup>

Since the beginning of the European experience it was clear that defence procurement was an issue to be kept out of the Communitarian path: the failed attempt at a Common Defence in 1954 as well as divergences of perceptions among European actors regarding NATO reinforced this understanding: states considered defence procurement too important an issue to leave it out of national hands. This has inevitably marked a deep watershed between European economic integration performances and political might, “some Member States have interpreted this Article broadly and divergently, accentuating the fragmentation of the European defence-market. Exemptions have been applied to a wider range of products without reference to the 1958 list.”<sup>289</sup>

### **3.3 Enhancing a competitive European Technological and Industrial Base: steps forward and limits within the EU framework**

Notwithstanding the limits aforementioned, within the EU context some steps forward to invite more coordination among states have been attempted:

European Commission Green Paper on Defence Procurement.<sup>290</sup> In September 2004 the European Commission has issued a Green Paper

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<sup>287</sup> Burkard Schmitt, “Defence Procurement in the European Union, the Current Debate”, *Report of an EUISS Task Force*, Institute for Security Studies, May 2005, p. 7.

<sup>288</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12002E296:EN:NOT>

<sup>289</sup> Commission of the European Communities, “The Challenger Facing the European Defence-Related Industry, a Contribution for Action at European Level”, *Communication from the Commission*, Brussels, 1996, p. 14.

<sup>290</sup> Green Paper on Defence Procurement, COM (2004) 608.

on Defence Procurement, the aim of which was to render more transparent the defence market. If 'arms, munitions and war material' could motivate exemption from internal market procedures the Commission stated that this possibility was not automatic but, as the European Court of Justice emphasized, derogations should concern the safeguard of the essential security interests invoked and the possibility of member states to assess on a case-by-case basis if the contracts stipulated fulfilled the exemption requirements. The objective of the Green Paper was therefore to open a debate with a view to a more regulated and competitive European market in defence procurement and to promote a European Defence Equipment Market (EDEM), "the Green Paper is one of a series of initiatives launched by the Commission to gradually establish a real European defence market, with common rules applying to all Member States but adapted to the special nature of the sector".<sup>291</sup>

In particular, the misuse of Art. 296 was underlined and with that the necessity for a specification and explanation of the derogations from normal internal market procedures. The reasons that pushed towards these European initiatives shed a light on some of the peculiarities of regimes: the aim of the Commission was to render more transparent and competitive the defence market among European states and therefore to promote reciprocity and mutual trust. Once again the limitations of these documents were those typical of issues related to security. As Schmitt points out, "the production and trade of defence instruments are strictly related to the sovereignty of states. The nature of defence markets is for this motivation extremely political".<sup>292</sup> Moreover, the author puts emphasis on the different point of views of each European state about the organization and the working system of a defence market: different cultural traditions and different policies drive states to privilege the own national industries as source of power and influence. Without a Communitarian directive that would coordinate norms and procedures of national procurement systems at the European level states would difficultly be able to work together.<sup>293</sup> At the EU level not only distributional but also legal and bureaucratic problems do exist, "efforts to design a common system for arms procurement therefore face the challenge of combining several different

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<sup>291</sup> European Commission, Commission Consults on More Open and Efficient Defence Procurement, *Frequently Asked Questions*, Brussels, September 23, 2004.

<sup>292</sup> Burkard Schmitt, 2005, p. 12.

<sup>293</sup> *Ibid.*, p. 13.

national administrative systems and patterns of procurement”.<sup>294</sup> According to the proposal of the Green Paper, an Interpretative Communication (launched on 2006) on the application and interpretation of Article 296 had the aim of driving states to assess whether a contract awarding process could have been exempted from Community rules or eschewed the conditions established by the Court of Justice. Instead, a Directive on Defence Procurement was aimed at opening up markets and promoting competition within the European industrial landscape regarding non-strategic equipments, “the Directive will not only help to coordinate national procurement procedure. At the same time, it will offer defence specific and more flexible rules than the existing Public Procurement Directive and thus make it easier for Member States to resort less to Article 296 of the Treaty”.<sup>295</sup> The Directive will apply to those war materials for which states do not request exemption on the basis of Art. 296: agreement among member states should be reached on the appropriate definition to be conferred to these ‘war materials’. The European Commission has often remarked the desire to be more engaged with matters regarding armaments albeit constrained by the extreme importance of defence procurement for states “Article 296 of the Treaty on the European Union reflects an historical orientation of members states that, considering that armament was not a domain of classic economy, have placed it outside of the Commission sphere of work”.<sup>296</sup> As Schmitt underlines, from 1996 the Commission has launched numerous communications regarding defence industries.<sup>297</sup> Moreover, it has commissioned various studies to related research centers to identify the achievable gains from a joint management of the armament sector, to incentive the creation of a European industrial base and to shed a light on the costs deriving from a self-reliant strategy. Notwithstanding that, progresses have not been substantial. The different defence budgets among European states, the importance of military production and acquisition and actors’ different interests and

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<sup>294</sup> Kjell A. Eliassen and Nick Sitter, “Defence Procurement in the European Union”, *Report*, Centre for European and Asian Studies CEAS, Norway, August 2002, p. 4.

<sup>295</sup> Günter Verheugen, “For a Competitive European Defence”, *Military Technology*, 1, 2007, p. 101.

<sup>296</sup> Jean-Paul Béchat, “L’Europe de la Défense”, *Défense Nationale* 6, Juin 2001, p. 21.

<sup>297</sup> Burkard Schmitt, “The European Union and Armaments: Getting a Bigger Bang for the Euro”, *Chaillot Paper* 63, Institute for Security Studies, 2003, p. 29.

strategies have curbed the possibilities to reach out even a minimal overall agreement. Thus, the work of the Commission has been quite limited on this sector, “the Commission has been allowed to play four role which have direct or indirect impact on defence procurement”,<sup>298</sup> asserts Trevor Taylor: “first, it administers the EU’ s framework scheme of research and development support, with at least some of the work involved having defence application”.<sup>299</sup> Second, the Commission must give approval of major mergers among industries, even if they have a defence dimension. The Commission deals also with conversion problems (from military to civil production industries) and the related issues such as the likely unemployment. Finally, it monitors a list of dual-use items exports. Notwithstanding these influential roles, the Commission is not able to intervene directly on the procurement process.

What the Commission aims at doing is to face the complexities of defence procurement and to envision the way in which these latter can be made compatible with the internal market requirements. As early as 2003, the European Commission took an initiative for the creation of a European Defence Equipment Market that could have propped up a common foreign security and defence policy. It was a proposal that highlighted issues such as the standardization of operational requirements and consequently of military equipments, the monitoring of defence industry, intra-communitarian transfers, competitiveness, dual-use products export, rules of procurement and collaboration in the field of research and development. The end objective in the field of defence procurement was, and still is, to have a single set of rules for the procurement of weapon systems in Europe.

POLARM (European Armaments Policy Council Working Group). It is said to be the only formal forum of discussion on armaments and is embodied within the European Council since 1995. Notwithstanding the emphasis put on standardization and restructuring no substantial achievement have been reached.

European Defence Agency (EDA): thus far, this has been the most outstanding initiative within the European landscape. It has been created in 2004 under the Control of the Council. According to Schmitt, the creation of EDA mirrors members states’ determination to pool new

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<sup>298</sup> Trevor Taylor, “Arms procurement” in Anand Menon and Joylon Howorth, ed., *The European Union and National Defence Policy*, Routledge, London and New York, 1997, p. 132.

<sup>299</sup> *Ibid.* p. 132.



military capabilities with new research techniques and new approaches to cooperation on defence armaments and markets.<sup>300</sup> EDA became operational in 2004, with the objective of dealing with defence capabilities development for crisis situations, with armaments cooperation, with the strengthening of the defence and industrial base and with technological research improvements. Of the utmost importance is the 2005 initiative regarding the adoption of a Code of Conduct, “an inter-governmental regime, voluntary and not binding from a juridical point of view that should facilitate the opening of defence procurement to intra-European competition for what concerns contracts likely to fall under Art. 296 of the Amsterdam Treaty”.<sup>301</sup> The principles at the basis of the Code of Conduct state that the Code is voluntary, that EDA will monitor its compliance, that the Code will assure security of supply, that it will provide fair and equal treatment of suppliers and that it will establish best practice (competition). Some kinds of contract will remain outside of this code, such as procurement on research and technology, collaborative procurements projects and procurements of nuclear weapons and related categories.<sup>302</sup> EDA’s aim is to become a European Agency for defence procurement; in fact it should encompass all the agreements reached and the organizations created even outside of the institutional context of the European Union. According to its overall mission, EDA could effectively help Europe becoming a political entity by furnishing more solid bases to a European foreign policy. Nonetheless, this is a very ambitious project and doubts persist on a potential and overwhelming

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<sup>300</sup> *Ibid.*, p. 10. Emphasizing this point is also the fact that ECAP Projects Group for the identification of capabilities shortfalls with respect to Helsinki Headline Goals (1999) started to be transferred under the cover of EDA. EDA should aim at spurring a rationalization of defence items within the European landscape. As an example of this was EDA invitation to pool the 23 separate national programmes to acquire new armoured fighting vehicles for the armed forces, see European Defence Agency, “European Defence Agency Ministers Call for More Cooperation on New Armoured Fighting Vehicles”, *Press Release*, Brussels, May 23, 2005. Generally, in the field of land-system less cooperation is witnessed as technology is less expensive, while on the aerospace sector cooperation is almost necessary.

<sup>301</sup> Lorenzo G. Forcieri, “Integrazione del mercato Europeo della difesa e collaborazione transatlantica”, *Convegno sull’ alta tecnologia per lo sviluppo, il lavoro e la sicurezza del paese*, Roma, January 18, 2006.

<sup>302</sup> Claire Taylor, “European Security and defence Policy: Development Since 2003”, *Research Paper 06/32*, House of Common Library, June 8, 2006, p. 46.

success especially because of divergent positions existing among European states, “they continue bickering among themselves, as is shown by the recent risible episode when Great Britain vetoed the 2009 budget of the European Defence Agency because it wanted more transparency about how the agency would spend the extra one million euros it is due to receive two years from now”.<sup>303</sup> In fact, notwithstanding the broad partnership (24 states) unanimity is required for decisions when motivations of national politics are arisen. Some authors reserve some positive comments on the power EDA may exercise over states, “it is not juridical relevant but it is nonetheless an explicit political engagement. The moral pressure power waged by the agency should not be overlooked because at the end of every year an eventual abuse or inconsistent behaviour will be overtly published in the Ministries’ report”.<sup>304</sup> EDA is not the regime on defence procurement: as it stands, a regime deals only with a single issue-area, while this Agency is of a more far-reaching vision and mission. As seen, European states have kept going with Intentions Declarations recognizing, with words, the importance of a more regulated European procurement. Coordinating procurement policies and giving birth to a demand that would incentive efficiency and competitiveness would be the solution to the pressures presented in the previous chapter. If binding agreements can achieve more transparency, competitiveness and reciprocity why is it so difficult to create them from the outset? Security issues are characterized much more than other matters by ‘distributional issues’: states cooperate to pursue their interests but are careful to make their own power weigh in cooperative arrangements. As it will be shown, the most effective but ‘exclusive’ initiatives have been those carried forward outside of the European Union context: first, they have been created by states with similar structural power and second they have been promoted by the major armaments producers and consumers, confirming Krasner’s thesis that “where the distribution of power has been strongly asymmetrical international regimes have not developed. The strongest states have simply done

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<sup>303</sup> Giovanni de Briganti, “Does Europe Need a Common Defence?”, *Military Technology*, 12, 2006, p. 8. On the financial situation of the agency see European Defence Agency, 2006 Financial Report, June 2007.

<sup>304</sup> Stefano Silvestri, Federica Di Camillo, Giovanni Gasparini and Michele Nones, “Le Iniziative europee per l’integrazione del mercato della difesa: analisi comparata delle diverse proposte e possibili opzioni per la tutela degli interessi nazionali”, *Osservatorio Strategico*, Institute of International Affairs, IAI, Rome, 2006.

what they preferred....where the distribution of power has been more symmetrical regimes have been established”.<sup>305</sup>

### **3.4 Few participants, great capabilities: does effectiveness come with exclusion?**

This section will aim at presenting the initiatives undertaken outside of the European context. A preliminary conclusion can be attempted: both intergovernmental arrangements and a small but powerful membership have appeared to be the conditions for achieving concrete results. Among the most relevant agreements and structures created outside of the EU context are:

Western European Armament Group (WEAG): before assuming the current acronym this agreement was known as IEPG (Independent European Programme Group, 1976). Inside of the IEPG initiative an important achievement has been the Vredling Report of 1985, aimed at pushing a European re-thinking about procurement, both on the supply and demand side. It stated that national procurement had to be abandoned in favour of a European-oriented armament agency by adopting competition-prone policies and avoiding market distortions. Nevertheless, states were not required to adopt such policies. WEAG was composed by all the European states embodied within NATO and the EU but Iceland. For this reason it was considered as “the largest pan-European framework for cooperation in the armament field”.<sup>306</sup> Its objectives were: to increase transparency and competitiveness through a more efficient use of the resources and through a major harmonization of operational requirements; to open defence markets to outer competition; to reinforce the European industrial and technological base and to promote cooperation on Research and Development. Notwithstanding the fact that the Accord set the bases for productive discussions and was able to bring to the negotiating table all the European actors, concrete results have been scarce, “consensus-based decision-making has allowed only for agreements on the basis of the lowest common denominator”.<sup>307</sup> States have committed themselves in words to modify their procurement practices, but the engagements undertaken were not legally binding, “WEAG has

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<sup>305</sup> Stephen Krasner, “Global Communication and National Power: Life in the Pareto Frontier”, *World Politics*, 43, 1991, p. 337.

<sup>306</sup> Burkard Schmitt, 2005, pp. 13-14.

<sup>307</sup> Burkard Schmitt, 2003, p. 23.

individuated the exact issue but lacks of means and structures to find out satisfying solutions".<sup>308</sup> In 1996, to deepen cooperation within WEAG, a new Organization has been created, WEAO (Western European Armament Organization). Nevertheless, it represented solely a research cell that assisted member states with administrative and contractual advice for cooperation in research, leaving outside the fundamental processes of planning and production. The broad partnership base and the equal voting power of each member despite the huge discrepancy in production capabilities has invited more powerful states to opt for more flexible but also more effective structures. In 2005, and following the creation of EDA, WEAG and WEAO functions, especially those related to R&T, were overtaken by the Agency and the two structures closed.

LoI (Letter of Intent) Framework Agreement: signed in 2000 by the six major producers of defence systems within the European landscape it reflects the supply-side of defence procurement. It was thought for facilitating the consolidation of and cooperation among defence industries. In particular, this agreement derived from a previous statement made by France, Germany and the United Kingdom to help the restructuring of the European aerospace and defence electronic industries, "France, Germany and the United Kingdom share an essential political and economic interest in Europe possessing an effective and competitive aerospace and defence electronic industry. This will enable Europe to improve its commercial position in the world, to reinforce its security and to guarantee that it can play a full role in its own defence".<sup>309</sup> The main advice behind this agreement was to capitalize on the yet existent inter-dependence among European states, brought about by previous cooperation on defence equipment, and to attempt, as much as possible, to promote the creation of transnational companies. This process, though, had to consider "the imperative of ensuring the Parties' security of supply, and a fair and efficient distribution and maintenance of strategically important assets, activities and skills".<sup>310</sup> Aside from the challenge at restructuring the industrial sector, LoI objectives encompass: help achieve security of

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<sup>308</sup> *Ibid.*, p. 23.

<sup>309</sup> Declaration of Heads of States and Governments of 9 December 1997.

<sup>310</sup> Framework Agreement Concerning Measures to Facilitate the Restructuring and Operation of the European Defence Industry in Burkard Schmitt, "European Armaments Cooperation. Core Documents", *Chaillot Paper 59*, April 2003, pp. 68-94.

supply for defence articles; ease, where appropriate, national export control; facilitate the exchange of classified information; promote coordination of research activities; set rules for the disclosure, transfer, use and ownership of Technical Information and foster harmonisation of operational requirements. It is legally binding only for the six countries involved (France, Germany, Italy, Spain, Sweden and the United Kingdom). Aside from what said, this Agreement is an expression of intent by states which are in no way as compelled as they would be under a Treaty.<sup>311</sup>

OCCAR (*Organisation Conjointe de Coopération en Matière d'Armement*): from 2001 this Organization, created by France, Germany, the United Kingdom and Italy has a legal status, and this means that it is an international structure able to hire personnel and award contracts to the industrial sector. By having the power of issuing contracts on behalf of participating states and by managing the procurement process of the assigned programmes, OCCAR assures the presence of a single Executive Director instead of as many directors as the number of participating states. This, inevitably, simplifies and makes more fluid the procurement process, saving from a lot of inefficiencies present in collaborative projects. As Schmitt points out, differently from more encompassing agreements, as for example WEAG/WEAO, OCCAR reflects the interests and power of the major defence producers (the United Kingdom, France, Italy and Germany). This inevitably poses some problems to the image of a widespread European defence, "few important arms producing countries are also those with most significant defence budgets, which means that the bulk of defence money in the EU is spent in countries where in many cases national preference policy can be assumed".<sup>312</sup> Undoubtedly, one of the most important issues is the embodiment of new members states: while the major European producers of defence equipment are keen on negotiations and contracting and know how to deal with the

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<sup>311</sup> See on this point Lieutenant General Nazzareno Cardinali, "Armament : Which Technologies for Which Defence?", Address delivered at the centre des Hautes Etudes de l'Armement, Paris, November 19, 2007b, p. 4. On this point General Cardinali maintains that the Framework Agreement does not create a precise organization and also that there are lots of issues where national states can deviate from the Framework Agreement claiming 'national security or key strategic initiatives' reasons.

<sup>312</sup> Burkard Schmitt in, "Defence Procurement in the European Union, the Current Debate", *Report of an EUISS Task Force*, May 2005, p. 16.

bargaining process in collaboration projects “such learning benefits might be reduced if new partners are added to the club”.<sup>313</sup>

The aim of the Organization is to manage the acquisition of European programmes in cooperation. As Schmitt points out, OCCAR, as an international procurement agency, is an International Organization which is not subject to Community Directives, and in any case it regards complex systems which would be inevitably covered by Article 296 exemptions: with EDA, which is not an International Organization, the situation would be different.<sup>314</sup> The repercussions that a structure such as OCCAR can have on transatlantic relations are manifold and will be evaluated later on. Here one related aspect should be underlined: since OCCAR foresees the participation in certain programmes of states which are not members of the Organization, and since it is probable that these states would then acquire the weapon systems in the production of which they are participating, it is possible that a smaller number of weapons would be asked in the American market. For example this could be the case with the A400M military transport aircraft where even non-European states participate.

If OCCAR has not been able to conduce states towards an harmonization of operational requirements it is but the most concrete initiative in the field of defence procurement thus far. This is the reason why a thorough consideration of its working is paramount and will be undertaken in the following chapter.

### **3.5 An outlook on major European arms producers**

The aim of this section is not to explain in detail states' procurement policies since this is not the objective of the research project. Instead, what will be looked at in here are the ways in which available options in defence procurement have been exploited in the past with different strategic constraints and how they have changed with time passing. Therefore, European relationships will be taken into account together with those with the United States. As it will be apparent, a state that has struggled to improve its defence might has obtained a powerful position thanks mostly to a nationally-based defence procurement

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<sup>313</sup> Keith Hartley, “Defence Economics and the Industrial Base”, Centre for Defence Economics, University of York, England, p. 13, <http://www.york.ac.uk/depts/econ/documents/research/pauwels.pdf>

<sup>314</sup> Burkard Schmitt in, “Defence Procurement in the European Union, the Current Debate”, *Report of an EUISS Task Force*, May 2005, p. 30.

process or through asymmetrical cooperative processes. Procurement policies have been used as a foreign policy tool and they should be considered in the same way today.

Speaking about European production of defence equipments should not be misleading: in this case the Europe at 27 does not enter the picture. More than 90% of the defence industries and capabilities rests on a bunch of countries: France, Germany, the United Kingdom, Italy and to a certain extent also Sweden Spain and Belgium. The industrial structure of each country is fundamentally diverse: in the UK we can find a mostly private and horizontally integrated defence industry, which has been the product of restructuring processes started in the Thatcher' s period. German industry is fundamentally private but vertically integrated. As for France, state's control is still important in the defence industry but processes of privatization are taking place. Italy is similar to the French case, but more vertically integrated. What these countries have in common, though, is the presence of big national industries deemed fundamental for having a say in European developments and for meeting own interests. The presence of big national champions, that contribute to the power and prestige of these countries, has promoted inefficiencies and duplications in the European landscape, "many European governments still feed most of their procurement budgets to home firms, not permitting foreign ownership of top contractors, leading to overcapacity".<sup>315</sup> Katia Vlachos goes on explaining that, for example, to fulfil the need for a multi-role combat aircraft, European states have produced three different systems, the Rafale (France), the Gripen (Sweden) and the EF(Eurofighter)-2000 (Britain, Germany, Italy and Spain), stressing that the persistence of different strategic culture as well as the effort at maintaining national prerogatives have downplayed a European common path.<sup>316</sup> Below a snapshot overview of country's general posture will be depicted.

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<sup>315</sup> Katia G. Vlachos, "Safeguarding European Competitiveness: Strategies for the Future European Arms Production and Procurement", *Occasional Paper 4*, ISS-EU, January 1998, p. 6.

<sup>316</sup> As for the EF 2000 Vlachos points out that even if a collaborative project, this combat aircraft has been very expensive, since each of the four states has requested production lines in its territories and each expected a work-share proportional to the investment made.

### 3.5.1 France

France has always been a strong promoter of a defence stance for Europe independently from the Atlantic context, even if, as some scholars point out, it has conceived the defence policy not as the Europeanization of the French one but as the spread of its own conceptions, sometimes in contrast with those of the other European partners. France considers its leadership in European defence matters as paramount, “the preservation of France position within the world will be at a great extent linked to her ability to influence the European construction and the future evolution of Europe”.<sup>317</sup> Since the end of the Cold War France retained that a ‘supranational’ European structure as for armaments and defence could have determined an American hegemony; therefore, even if cooperation was needed in order to satisfy French interests, this should have to be determined principally in a intergovernmental way so as to speed up European capacities. Coordination is for France, as for other states, a strategy to manage its actual position. Of course France will prop up a coordination in defence matters as long as it is intergovernmentally shaped. With its strong military might France hopes to take a lead on it: given the difficulty of going it alone France has attempted to foster a European defence pillar, searching therefore to define the rules of the game. Nevertheless, disagreements among European states, as well as systemic constraints, influenced states’ defence positions, underlining even more their deep differences. The better solution for most of them was to prefer what was considered a NATO hegemony over the European territory.

It can be said that the history of European defence thinking is the history of France’s attempts and endeavours contrasted each time by other European states. It is fair to argue that France has been the main promoter of all European defence initiatives, starting from the Pleven Plan, going through the Fouchet Plan(1960-62) and the Franco-German Treaty: none of these attempts did go ahead and fix the transatlantic issue; at that point in time Europe was neither able nor willing to envision a detached European defence policy, while France was not able to go it alone with its objectives.

That systemic constraint and that the presence of an external threat were paramount to stem a defence posture is underlined by the new defence debate inaugurated after the implosion of the Soviet block: structures such as the WEU (Western European Armament) which

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<sup>317</sup> « Livre Blanc sur la Défense », République Française , 1994, p. 26.



were inactive for almost all the Cold War took new life. Was there any reason to keep being reliant on the United States given the absence of a common threat and the progressive diversification of states' interests? France again was the main promoter of cooperative endeavours, with the definition of Franco-German defence Commission (1982), the Council (1989) and the creation of a Franco-German brigade (1989). Also, "it was at French insistence, with German backing, that a clause was inserted into the Maastricht Treaty (Title V) establishing a common foreign and security policy(CFSP)...".<sup>318</sup> There was room for a peculiar European policy, distinct from the American one and, because of that, the need was stronger to forge the basis of a security structure, "in this context of decreasing means and efficiency, France has tried to set up a European system of defence, to compensate for the shortcomings of national systems, notably for heavy materials, likes transport planes, ships, and aircraft carriers".<sup>319</sup>

One of the trickiest aspects of European defence is the relation existing between France and the United Kingdom: the leading European powers have very different but also similar interests and policies, "our two countries share an intricate history, have similar ambitions and defence policies, and have comparable technological and industrial bases as well as defence budgets".<sup>320</sup> Both of them have a European and an Atlantic aim, even if they are significantly divergent, the United Kingdom keeps wanting to be the link between America and Europe, while France prefers an autonomous European entity. The relationship with the United Kingdom has always been considered paramount even if difficult because of the similar capabilities of the two countries. While an important step forward was reached in 1998 with the Saint Malo Agreement, a lot of authors now recognize that the honeymoon of the two countries has lasted but a few moments, "for some time now, France has been facing what might be called a 'British crisis' in its defence policy-Great Britain now sets the standard within Europe for military efficiency and deployability and is a standard of reference within defence circles. As a result, Great Britain represents a model to be admired and emulated, an ally to cultivate, and even a competitor to

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<sup>318</sup> Anand Menon and Joylon Howorth, ed., *The European Union and National Defence Policy*, Routledge, London and New York, 1997, p. 24.

<sup>319</sup> Fanny Coulomb and Jacques Fontanel, "An Economic Interpretation of French Military Expenditures", *Defence and Peace Economics*, 16, 4, 2005, p. 309.

<sup>320</sup> Francois Lureau, "Towards a European Defence Procurement Policy: Lessons from British and French Experience", *RUSI Defence System*, Summer 2005, p. 20.

balance against for political-military leadership in Europe”.<sup>321</sup> Moreover, the emphasis put on the Franco-British rapprochement should be understood taking into account another parallel event, that is, France’s new dialogue with the Atlantic Alliance: it is probable that without this latter event the United Kingdom would not have shifted toward a more pro-European stance.<sup>322</sup>

As we said before, France policy is one which underlines national independence, “the first objective of the defence policy is the defence of her interests”;<sup>323</sup> from the ‘90s France is more prone to speak about multilateral structures maybe because now its role in forging them is likely to be decisive as it would not have been in the context of the Cold War. Also, France recognizes that while the major threat has vanquished cooperation with other states is necessary to face the challenges of this fluid historical period and of reduced budgets.

France has always been one of the leading weapons producer, especially in the aerospace sector. Its priority has been the maintenance of autonomy on defence issues and an emphasis on technological lead,<sup>324</sup> which inevitably required a close relationship between the state and the industry. Technological skills will be important not only for France defence posture within the European context and towards the United States but will be utmost also for the overall European security and defence strategy, “to renounce to be active in high technologies would devoid the Europeans of the ability to have a say in the crisis that will happen, and it would oblige them to mirror according to the American model the paths and means of military actions destined to reflect their interests”.<sup>325</sup>

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<sup>321</sup> Etienne de Durand, “French Security Policy Under the New Government”, *US-France Analysis Series*, the Brookings Institution, November 2002, p. 2.

<sup>322</sup> Gilles Andréani, « Europe de la Défense : Y a-t-il encore une ambition Française ? » *Politique Etrangère*, 67, 4, 2002, p. 987.

<sup>323</sup> « Livre Blanc sur la Défense », République Française, 1994, p. 23.

<sup>324</sup> Jean Paul Hébert and Laurence Nardon, « Concentration Des Industries d’Armement Américaine: Modèle ou Menace?, *Cahiers d’études stratégiques*, Stratégie et armement Europe, Centre interdisciplinaire de recherches sur la paix et d’études stratégiques, 1998-1999, p. 77.

<sup>325</sup> Yves Boyer, “Technologies, Défense et Relations Transatlantiques”, *Politique Etrangère*, 4, 1994, p. 1011.

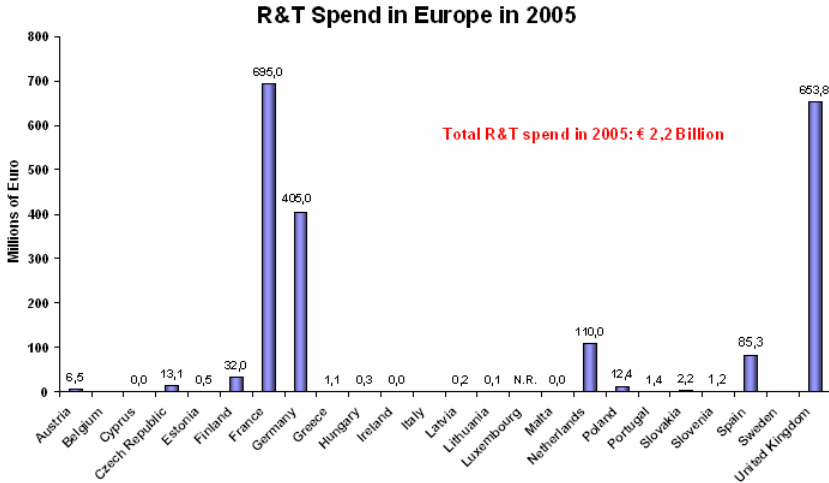


Figure 5. R&T Expenditure in Europe (2005). Source: [http://www.eda.europa.eu/genericitem.aspx? area=Facts&id=179](http://www.eda.europa.eu/genericitem.aspx?area=Facts&id=179)

Inevitably, France decision to withdraw from the NATO’s integrated military command has set in motion economic and technological progresses through national arms production. This does not mean that the state has not engaged in cooperative projects, but that even in these latter cases France has attempted to lead the collaboration process and has privileged cooperation with Germany, believing it to be the necessary card for a European defence, “Franco-German relationship is essential to promote Europe as a force of stimulus and proposition. It places France and Germany to the heart of the European construction”.<sup>326</sup> In the past, this kind of collaboration was out-balanced on the part of France, but with the development of a stronger German defence sector, issues concerning leadership and work-sharing are coming about.

When not national, this state prefers European acquisitions rather than American ones, “French armed forces should equip themselves with European weapons system. France will search of course to influence its

<sup>326</sup> “Le Relations Franco-Allemandes en matière de défense”, [www.defense.gouv.fr/defense/layout/set\\_/print/content\\_/view/full/94097](http://www.defense.gouv.fr/defense/layout/set_/print/content_/view/full/94097). For an assessment of Franco-German relations see also David G. Haglund, *Alliance Within the Alliance? Franco-German Military Cooperation and the European Pillar of Defense*, Westview Press, Boulder, 1991.

European partners to do the same in this field” and actively promote the development of European weapon systems “France strongly favours a European armaments policy which purpose would be to synchronize military requirements, integrate the defence sector, and create an institutional mechanism for cooperation that respects the national interests of the member states”.<sup>327</sup> The Franco-German Agency created in 1996 was interpreted by the French political spectrum as an attempt at facing American competitiveness.<sup>328</sup> Nevertheless, it should be stressed that France relations with the United States are much more multi-faceted than normally thought, “due to the US-French cooperation on armaments, American companies are the most important foreign suppliers of French armaments. In order to get access to the French market, American firms must typically provide access to technology that the French need”.<sup>329</sup>

As some authors point out, France experienced very much the limits coming from reduced defence budgets even if it attempted, as much as possible, to keep substantial defence expenditure after the end of the Cold War, “this may be explained by the relative lateness of defence policy reform and also by a political will to preserve national independence on defence through maintaining a high level of military expenditures, in spite of geopolitical changes”.<sup>330</sup> Gradually, though, France procurement and industrial policy has started to change, adopting a more competitive stance at least within Europe.

Notwithstanding the general reduction of defence budgets after the end of the Cold War, France quickly understood that the moment was propitious to take a lead on the European defence moulding process: in both the Military Programme for 2003-2008 and in the *Loi de Programmation Militaire*(2002) it was clearly stated that France had to commit more to defence expenditures. Both documents “reverse the trend of declining French defence spending so evident in recent years—a trend that, if it had continued, would have led to a virtual collapse of French defence capabilities”.<sup>331</sup> The first clearly stated aim was to gain the political and military leadership in Europe, to be a ‘lead nation’: in the Military Programme for 2003-2008 it was asserted that for France

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<sup>327</sup> Kjell A. Eliassen, 2002, p. 1.

<sup>328</sup> See on this point “Débat sur une Déclaration du Gouvernement”, Séance du 23 Octobre, 1996, French Senate, [www.senat.fr/seances/s199610/s19961023 /sc19961023015.html](http://www.senat.fr/seances/s199610/s19961023/sc19961023015.html) .

<sup>329</sup> Kjell A. Eliassen, 2002, p. 12.

<sup>330</sup> Fanny Coulomb and Jacques Fontanel, 2005, p. 300.

<sup>331</sup> Etienne de Durand, 2002, p. 1.

Europe was now the main political and geographical spotlight and that therefore the state would have contributed to the achievement of the stated objectives, “France has undertaken to satisfy a fifth of the global objective of Helsinki, whilst contributing decisively to structural strategic resources: especially strategic and operational headquarters, communications and intelligence information systems”.<sup>332</sup>

As stated, in their procurement strategies states exhibit different sensitivities to pressures coming from the military and industrial side. From this point of view, it is possible to say that French plans have been more “political” : a case in point is the national Rafale programme, that was chosen instead of the five-nation European Fighter Aircraft notwithstanding its costs, “Rafale is certainly the last major red, white and blue weapons system likely to be developed in France. The 1994 Livre Blanc states bluntly that no major future conventional armaments programme seems able to escape the logic of European cooperation”.<sup>333</sup> Nevertheless, what France was stating in its Livres Blancs does not always mirror what France actually does. For example, even if France recognizes in a clear way that from the industrial point of view cooperation is not only useful but inevitable, in many occasions it still produces complex armaments at the national industry level. Attempts at distancing from traditional practices do always bring about huge protests, “until when military needs will exist, weapons equipments have to be produced by industries subject to the national control: armaments should not be considered as other ordinary commodities”.<sup>334</sup>

Jacques Chirac’s reform process in 1966, dictated also by financial considerations, was of the paramount importance to adapt the French industrial sector to the new exigencies and to favour the emergence of competitive poles, “in an effort to give France some chance of dominating the two main sectors in which she still operated competitively-electronics and avionics-Chirac made two decisions. He ordered the rapid merger of the profit-making Dassault and the loss-making Aérospatiale in order to produce one industrial giant around which-hopefully-other European partners might be forced to gravitate.

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<sup>332</sup> République Française, 2003-2008 Military Programme Bill of Law, Chapter 3, *Appended Report*, p. 22.

<sup>333</sup> Anand Menon and Joylon Howorth, ed.,1997, pp. 37-39. Livre Blanc sur la défense, 1994, p. 39.

<sup>334</sup> Citation by Claude Billard, Séance du 19 Juin 1996, French Senate, [www.senat.fr/seances/s199606/s19960619/sc19960619020.html](http://www.senat.fr/seances/s199606/s19960619/sc19960619020.html)

And he ordered the privatisation of Thomson CSF, gambling on provoking a series of mergers among French Companies in the sector prior to the constitution of a (French-led) European group capable of competing with US defence manufactures".<sup>335</sup> That meant inevitably that a merge between French companies would have had a deeper weight on European defence restructuring and tasks division. In fact, distributional concerns made it particularly difficult the creation of a French-German armament structure, which was continuously delayed. France was searching, therefore, to preserve and even to increase its position, a concern that was shared by all other European states. Howorth and Menon stress in an accurate way that what was at stake was so high that every European leader tried to prevail; even the British understood in 1996, at the constituting point of the armament agency, that the stakes were too high in the European context not to participate, and in fact the United Kingdom did participate with an armoured personnel carrier and with a European cruise missile.<sup>336</sup> State participation in defence industries has been strongly reduced: now the French government participate in EADS only with the 15% and 33% in Thales; nevertheless the position of the state in defence issues can never be questioned exactly because of the role it plays in this peculiar field, "the basic principle in European cooperation programs so far has been that each country has received a work-share proportionate to their investments and their orders. This is not seen as an offset policy in France, but it is unlikely that French industry would have participated in such programs if France had not placed orders within them".<sup>337</sup>

### 3.5.2 Germany

Germany's defence posture has changed in a significant way during the Cold War in correspondence with its progressive increase in power: this has modified its policy both with the Atlantic Ally and with its main partner and historical enemy, France. For this state, the preservation of a transatlantic link has always been much more compelling than for France, "Germany did not object to discussing questions of defence policy, for example, within the context of

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<sup>335</sup> Anand Menon and Joylon Howorth, ed., 1997, p. 37-39. *Livre Blanc sur la défense*, 1994, p. 42.

<sup>336</sup> *Ibid.*, p. 42.

<sup>337</sup> Kjell A. Eliassen, 2002, p. 18.

European political community. Given its dependence on the US and NATO, however, its main interest was to work towards a common foreign and security policy, rather than any military co-operation within the European Community framework".<sup>338</sup> After the end of the Cold War, German approach toward the transatlantic ally has been ambivalent, meaning that even if emphasizing the transatlantic link it has followed France in its European attempts. Of course, this strategy was also a product of the changed American priorities.

All the attempts made by France during the Cold War period and that required German cooperation were considered with prudence so as not to endanger relations with the United States. For France, attempts at cooperating with Germany were part of a strategy to increase its power and leadership within the European landscape. Since for Germany American military protection was paramount, it could not but avoid engaging in projects that were aimed too clearly at building a separate defence might. If encompassing security and defence policies within the European integration process was an understandably German desire, dependence from the United States hampered alternative strategies, among which laid the desire to normalize and strengthen relations with France, the other great continental power. This does not mean that the two nations did not cooperate at all: a lot of military programmes did start almost immediately in the first decades of the Cold War. Willy-nilly, because of these cooperations, Germany has permitted France to increase its power and leverage within the European context, "Germany has willingly allowed France to hold a leading position in Europe, thereby defusing mutual historical enmity and laying the foundation for European unity".<sup>339</sup>

In the '80s, German attitude towards the Atlantic ally started to change, first of all because of the renewed competition started from the American Republican President, which could difficultly match with the attempt to normalize relations with the East through the Ost-politik. More to that, though, was Germany reunification which conferred back sovereignty and the possibility to exploit its immense potentialities. Therefore, after the end of the Cold War, Germany's strategy begun to

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<sup>338</sup> Johannes Bohnen, "Germany" in Anand Menon and Joylon Howorth, ed., 1997, p. 49.

<sup>339</sup> Peter van Ham, "Europe's Precarious Centre: Franco-German Cooperation and the CFSP", in Simon Duke, ed., *Between Vision and Reality. CFSP's Progress on the Path to Maturity*, European Institute of Public Administration, Maastricht, 2002, p. 65.

change: while reunification could re-confer a geographical strength in the center of Europe, a re-gained leverage and status could only have been achieved through a more proactive policy especially on the European front: in Germany “we witnessed not only a modification of the constitution in response to European demands, but also a cultural sea-change marked by the emergence of a new concept-Europafähigkeit (Europe-compatibility)- as the central strand in German defence thinking”.<sup>340</sup> German freedom of action and commitment to the European cause conferred the country more power, “ironically, the project of European integration was largely designed to contain the Germans, not to foster their role in world affairs. Yet German support for European integration has often had the effect of enhancing, rather than reducing, German autonomy in defence matters”.<sup>341</sup> Integration and Europeanization were therefore beneficial to Germany autonomy and influence: for the German defence industry they were “an important vehicle to promote its interests”.<sup>342</sup> Cooperation is therefore an apparent and broad part of the German defence procurement strategy; in fact cooperation has helped to develop the national industry and accommodate past grievances. More to that, international cooperation has legitimized projects that would not have been accepted in the national context given the internal reticence towards military issues. Since collaboration is of the paramount relevance for Germany, this latter has felt the exigency to strengthen its leading sectors so as to be not only a reliable and paramount partner in cooperation ventures but also one of the European leaders in military production, “as a prerequisite for this ability to cooperate, Germany will maintain an efficient and competitive industrial base in core areas of technology affording it some leverage in the development of key weapon systems. This will promote the capacity to play a constructive role in an Alliance and European context and is thus an element of German security policy”.<sup>343</sup> As said before, Germany’s stance towards France and the United States has changed correspondingly to its increase in power. The changed relationship with the United States presented, now it should be

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<sup>340</sup> Johannes Bohnen.,1997, p. 16.

<sup>341</sup> *Ibid.*, p. 49. Livre Blanc sue la défense, p. 53.

<sup>342</sup> *Ibid.*, p. 60.

<sup>343</sup> Peter Struck, Former Bunderminister der Veteidugung Mitglied des Deutschen Bundestagen, *Defence Policy Guidelines*, Bundesministerium der Verteidigung, Berlin, May 2003, p. 14.



appreciated how this increase in power has impinged on the Franco-German one. While still a minor partner, Germany stands as one of the most important European producers, with high capabilities. Aware of its importance in carrying forward a European military might Germany has requested to participate on an equal footing within cooperative projects: this can be seen in the constitution of EADS as the major military pole and in the assessment of various weapon systems requirement. As for EADS, and as seen in the previous chapter, there exists an identical distribution of power between France and Germany which has sometimes overburdened the company work. Especially for political reasons, this merger was of the paramount importance to create a truly and reliable European pole, to tie and encompass Germany new power position and share with it the responsibility to develop a European defence might competitive enough to face the American giants. For Germany, this was an outstanding opportunity to underline its European role and to improve its aerospace industry might. As Burkard Schmitt points out, both countries (France and Germany) desire to coordinate was possible because of their commitment to important concessions, "the French side had to accept a merger of equals. At least for some in Paris, this was not easy since Germany's aerospace industry was traditionally considered in France as an important albeit minor and technologically less competent partner. Moreover, in terms of sales and order backlog, Aérospatiale-Matra is bigger than DASA.... On the other hand, and this was decisive, DASA is much more profitable than Aérospatiale-Matra.....Moreover, there was a political motivation to tie down DASA before it linked up with an American partner, leaving the French industry isolated".<sup>344</sup> Discrepancies among the two countries have often determined substantial delays, case in point being the TIGER combat helicopter programme, the contract of which was signed in 1989 but actual orders made in 1999, "the initial timetable was wrecked by the different basic needs of the French and German armies, linked to differences in military culture and strategy. Originally, Germany wanted an anti-tank helicopter, whereas France preferred a support protection version that would be geared toward air combat as well. Now there will be three version of the TIGER: one for Germany and two for France".<sup>345</sup>

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<sup>344</sup> Burkard Schmitt, "EADC is Dead-Long Live EADS", in Simon Duke, 2002, p. 147.

<sup>345</sup> Peter van Ham, in Simon Duke, 2002, p. 78.

Germany is also a major contributor to OCCAR's working, the Organization placed on its territory, confirming again the willingness of the country to proactively participate in the European scenario as a leading nation, "German policy-makers see a compelling political imperative to give precedence to European procurement".<sup>346</sup> According to Sarotte, in deciding for the Future Large Aircraft (then A400M) Germany did evaluate the American aircraft option as politically unsuitable; instead, the French(A400M) and Ukrainian options were both, even for different reasons, politically attractive.<sup>347</sup> Nevertheless, more than one problem have plagued German cooperative agreements, the most important of which being financial, as in the case of the A400M were German parliamentary approval delayed of almost two years the development of the system: this reflects the contradiction between Germany's European aspirations and internal reticence on military affairs. Given the huge and unrealistic amount of orders made for the aircraft(73) doubts arose about the hidden motivations behind Germany's commitment which in any case fell down to 60 aircraft, just the necessary number to start the programme.

### 3.5. 3 United Kingdom

In the United Kingdom the '80s and the early '90s have been characterized by deep and radical restructuring processes of procurement practices and defence industries structures. A particular emphasis then was put on liberalization within the defence sector and particularly on competition. Nevertheless, what English policymakers referred to was not pure competition but 'value for money', a practice that underlines the importance of efficiency "whilst competition allows the advantage of tangible price comparison determined by market forces and the ability to compare competing proposals for compliance, it can also sometimes drive unintended behaviours and consequences for both us and industry. These may include unrealistic timescales, an over optimistic assessment of risk and hence cost, and the potential loss of flexibility for timely insertions of technology in the future".<sup>348</sup> This is

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<sup>346</sup> Mary Elise Sarotte, "Germany Military reform and European Security", *Adelphi Paper 340*, 2001, p. 49.

<sup>347</sup> *Ibid.*, p. 50.

<sup>348</sup> MoD, Defence Industrial Strategy, Defence White Paper, presented to the Parliament by the Secretary of State for Defence, December 2005. MoD analysts precise that "even in competitive environments there are a number of wider

so, according to UK analysts, because defence is not a perfect market condition; therefore procurement strategies should be tailored to underpin key sovereign capabilities and to provide long term efficiency. Quality impinges on the decision as well as price, and evidence shows that the lowest bids have not always been satisfying. As for contracts, awarding procedures started to be calibrated on the basis of fixed-price contracts rather than cost-plus ones: it was possible, then, to keep down costs and enhance competitions among tenderers. More to that, emphasis on “smart acquisition” rather than on ‘procurement’ is intended in the UK as an approach aimed at ‘acquiring capabilities’ rather than at meeting the requirements of the armed forces: this has permitted to concentrate more on the whole process of a system life-cycle rather than on the pure acquisition phase, and to advance Projects team-working with various abilities and experiences.<sup>349</sup>

Competition, as a basic principle for contract awarding, has been since the ‘80s one of the main parameters of English defence procurement process: pressures on defence cuts have appeared slightly before the end of the Cold War and soared especially because of the huge defence spending compared to poor economic performances. Also, early in those years the state owned defence company British Aerospace started to become privatized.<sup>350</sup> Since the Levene reform in the Thatcher’s period, prime contractors were given more responsibility for the possible risk of failure and competition had to be considered as the main parameter guiding industrial choices; this led to a general privatization of the defence companies.

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factors besides cost and operational effectiveness, affordability and long term value that will influence supplier and procurement selection. These include security of supply and the retention of key technologies and industrial capabilities, the implication of export potential, our wider policy-framework and industrial participation”, p. 48. Similarly, in the 2002 Defence Industrial Policy it is emphasized that even if competition is at the basis of the procurement policy and that it is the better way to achieve ‘value for money’ it will be not used up to the point where this will not guarantee a clear long-term advantage, see Defence Industrial policy, Ministry of Defence UK Policy Paper 5, October 2002.

<sup>349</sup> Lord Bach of Lutterworth, “Defence Procurement and MOD/Industry Partnership in the UK”, *Military Technology*, 2, 2002, pp. 84-87.

<sup>350</sup> See on this point Paul Bishop and Rose Gripaos, “UK and European Policy Responses to Defence Restructuring: the Case of Devon and Cornwall”, *European Business Review*, 95, 4, 1995, pp. 25-34.

The acquisition process is not as centralized as in the case of France, where the *Délégation Générale pour l'Armement (DGA)* is responsible both for the procurement and the industrial policy through the participation of the state in defence companies. Some practices, though, seem similar for all powerful states as they respond to basic interests: in the past, and for maintaining the United Kingdom military might, defence industries have somehow been protected and supported and 'national' choices have been motivated by the economic return these would have brought about. This has been shown by huge defence budgets in comparison with those of the other countries. This phenomenon has determined, according to some pundits, huge economic distortions, "there is an influential body of literature which suggests that military expenditures has had a negative impact on economic growth by variously dampening investment, diverting scarce R&D resources and by infusing key economic sectors with a corporate culture ambivalent towards innovations and competition within civil markets".<sup>351</sup> Notwithstanding that, the importance to keep a powerful defence base is paramount for the UK given the capability of this latter to significantly influence political matters, "many procurement projects and collaborative ventures can now be so large in scale and political importance that they have significant implications for foreign and security policy interests. The nature of the UK defence industrial base can also affect the UK's ability to participate in and influence international collaboration now and in the future".<sup>352</sup>

A huge portion of defence procurement goes to national contractors meaning that even in a country which is so 'competition-prone', broader considerations hamper the decision for a sound procurement process. As some authors point out, "the government would strongly deny industrial policy considerations formed any part of defence procurement but there seems evidence that industrial/technological issues and lobbying from UK defence interests influenced decisions".<sup>353</sup> In the last years Britain industrial policy has slightly changed to permit foreign-owned companies to set up and operate within the territory. Instead of being a cession of sovereignty, this process makes part of a

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<sup>351</sup> Susan Willett, "What are the Implications of a Declining Defence Budget?" in John Gittings and Ian Davis, ed., *Britain in the 21<sup>st</sup> Century: Rethinking Defence and Foreign Policy*, Spokesman, England, 1996, p. 140.

<sup>352</sup> Defence Industrial Policy, Ministry of Defence UK, *Policy Paper 5*, October 2002, p. 12.

<sup>353</sup> Steven Schoefield, "How Should Britain Select the Weapons for its Armed Forces?", in John Gittings and Ian Davis, ed., 1996, p. 119.

newly-shaped strategy aimed at keeping technological might and jobs within the territory and diverting more profitable affairs into the United States provided that benefits, especially technological and economic, can be brought back, “the UK defence industry should therefore be defined in terms of where the technology is created, where the skills and the intellectual property reside, where jobs are created and sustained, and where the investment is made”.<sup>354</sup>

Figure 6. MOD’s top 10 direct suppliers in 2004/2005 showing location of corporate HQ Defence Industrial Strategy. Source: Defence White Paper, Presented to Parliament by the Secretary of State for Defence, by Command of her Majesty, December 2005 [http:// www.mod.uk/NR/rdonlyres/F530ED6C-F80C-4F24-8438-0B587CC4BF4D/0/def\\_industrial\\_strategy\\_wp\\_cm6697.pdf](http://www.mod.uk/NR/rdonlyres/F530ED6C-F80C-4F24-8438-0B587CC4BF4D/0/def_industrial_strategy_wp_cm6697.pdf) (see p. 291)

Both France and the United Kingdom have strived and realized to be two big arms producers, but the strategies they have deployed to fulfil this aim are different: while France stresses the European link, it is possible to say that the United Kingdom emphasizes the transatlantic chain for historical and strategic considerations, even if it is participating in various European programmes, among which the A400M, the Meteor Missile and the Eurofighter. Therefore, the United Kingdom argues against protectionist measures towards the United States and for an open-market strategy among European states.

Speaking of a European defence policy calls inevitably into question the relationship occurring between France and the United Kingdom since both countries are the most important European producers of weapon systems, “without intense Franco-British security cooperation and even integration, there is no possibility of developing either a credible CFSP or a viable ESDP...the biggest single stumbling block to both a CFSP and an ESDP has been the inability of Britain and France to agree on fundamentals”.<sup>355</sup> On this point of view, their relations have been characterized by a willingness to cooperate but also by mutual diffidence, “sensible defence procurement between Britain and France means that those two proud and somewhat arrogant nations have to

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<sup>354</sup> Defence Industrial Policy, Ministry of Defence UK Policy Paper 5, October 2002, p. 9.

<sup>355</sup> Joylon Howorth, “Franco-British Defence Cooperation and the Compatibility of ESDP with NATO” in Simon Duke, ed., *Between Vision and Reality. CFSP’s Progress on the Path to Maturity*. European Institute of Public Administration, Maastricht, 2002, p. 36.

concede political, technical and manufacturing grounds to one another and accept some form of loss of independence, concessions on foreign policy, intrusions in the shaping of industry, and last but not least the inevitable jobs casualties, a price that fewer and fewer politicians are prepared to pay".<sup>356</sup> Even if beneficial to both countries, cooperation assumes for them a different meaning. If engaging with France means to tie the hands of the most powerful and distrustful European state and take a lead on European defence developments, for France, according to Howorth, involving the UK in the European security and defence path means assuring a rare and intermittent engagement thus far.<sup>357</sup>

The United Kingdom is geographically a European nation but its interests have often conflicting with those of its European partners for historical and strategic motivations. For these reasons the UK has always put a clear emphasis on its transatlantic dimension. Britain defence industry is the one better able to penetrate the American market both in terms of exports and in terms of participation in US-led project teams: the United Kingdom is the main US overseas supplier. From the US point of view, the relation with the United Kingdom has served the aim of controlling continental developments, searching to guarantee that the initiatives undertaken to reinforce a European defence might were strongly inserted within the framework of the Atlantic Alliance. In this sense, the UK has searched to drive the interpretation of the Western European Union as the context within which to match up European and American relations so as to strengthen the Atlantic Alliance: this consideration reaffirms the UK' s image as of a 'bridge' among Europe and the US. At a more careful glance, though, the 'bridge' metaphor reminds to a more subtle but reasoned strategy: this 'in between position' permits to maintain balance in Europe without losing sovereignty and to rely on the special relationship to keep a powerful status amid reduced real power and influence. Therefore, while American collaboration does not offer the possibility to take a lead in defence production, European collaboration give the United Kingdom a paramount position, given its stance as one of the most powerful arms producers in the European landscape.<sup>358</sup>

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<sup>356</sup> Bruno L. G. Carré, "The Recent Opening of the French Defence Market and Anglo-French Defence Relationships", *RUSI Journal*, August 2001, p. 6.

<sup>357</sup> Joylon Howorth, 2002, p. 48.

<sup>358</sup> Daniel Keohane, "Why Collaborate in Europe?", *Rusi Journal*, 1 July 2004.

Against this background, the political debate has put a lot of emphasis on a new and more European defence attitude of the United Kingdom: its participation within the main organizations devoted to defence positively contributed to the formation of a European stance, "...over the last years the UK has moved away from its traditional partnership with the US in defence procurement, preferring instead to develop and procure technology in partnership with its EU allies".<sup>359</sup> Its participation in European institutions and defence developments was perceived of the paramount importance in the new post-Cold War scenario: Mr Blair supports this argument by saying that "if we don't get involved in European defence, it will happen without Britain. Then those people who really have an agenda to destroy NATO will have control of it".<sup>360</sup> Therefore, even if not totally happy with the new organizations, the United Kingdom decided to participate in them, "when the EDA was first suggested in 2002, the UK government tried to head off the idea, producing a counter-proposal for a 'capability agency' which would have focussed purely on encouraging member states to increase their capabilities and providing value for money audits of member states' spending".<sup>361</sup> Even if competition among European actors would have been strengthened the fear was to see a kind of fortress emerging and damaging relations with the US, "there are significant potential benefits to be gained from a better functioning European market, a more efficient supplier base, and better prioritisation of research and technology budgets in Europe, providing this can be implemented without damaging transatlantic co-operation".<sup>362</sup> This explains UK' s opposition to EDA budgets that invited the criticism of other European states, especially of France, or the reluctance towards a Directive proposed by the Commission Green Paper on defence procurement. Also in the case of the United Kingdom, cooperation is almost envisioned at the intergovernmental level, "intergovernmental coordination represents the convergence point of pragmatism and

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<sup>359</sup> Memorandum From Open Europe, Hansard Archives Research HOC Publications HOL Publications Committees, NATO 07, [www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/memo/nato/nato07.htm](http://www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/memo/nato/nato07.htm).

<sup>360</sup> Former Prime Minister Tony Blair, Sunday Telegraph, 17 March 2001.

<sup>361</sup> Memorandum From Open Europe.

<sup>362</sup> Defence Industrial Policy, Ministry of Defence UK Policy Paper 5, October 2002, p. 9.

principles, two concerns that we are used generally to combine in our defence policy".<sup>363</sup>

### 3.5.4 Italy

Italy's position in the European defence landscape has been characterized by ambiguities: on the one hand the willingness to remain an important player, and on the other hand poor investments dedicated to defence expenditures and research and investments. The financial law of 2007 was welcome by the President of Aerospace Industries Systems and Defence Giorgio Zappa as a substantial improvement of the percentage conferred to defence spending to GDP. This was of the paramount importance, stated the President, because "not only we do not catch up with countries that remain stable such as Germany and Sweden, but we are detaching from growing countries such as France and the Great Britain that do even increase expenses on the security and defence field".<sup>364</sup> More in general, though, Italy is perceived as a country that has chosen to rely on foreign protection rather than to pay the efforts of a more self-reliant defence strategy: this has determined its low-profile stance compared to other European countries.

Another ambiguous issue regards the willingness to deeply collaborate to the creation of a truly European defence and industrial base and also a flirting relationship with the United States. Relations with the United States have been deepened both on the industrial and political point of view: as for this latter aspect, 2005 has seen the strengthening of the Globalization Talks, followed by the Declaration of Principles established in 2004 by the defence ministers of the two countries (Italy and the US). The aim of this bilateral partnership is to ease defence cooperation among the two countries. On the industrial point of view, one of the most relevant factors has been the choice of US 101 helicopter, proposed jointly by Agusta Westland and Lockheed Martin as the Presidential helicopter. Also, under the last Berlusconi's government Italy has deepened relation with the United Kingdom thanks to the creation of some joint-ventures between Finmeccanica

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<sup>363</sup> Alyson J. K. Bailes, "Sécurité Européenne: le point de vue britannique", *Politique Etrangère*, 60, 1, 1995, p. 86.

<sup>364</sup> "Indagine Conoscitiva sullo stato attuale e sulle prospettive dell'industria della difesa e sulla cooperazione in materia d'armamenti", *Resoconto Stenografico*, 4<sup>o</sup> Permanent Commission (Defence), October 10, 2006.



and British companies(AMS- Alenia Marconi Systems, Agusta Westland) and Italian acquisitions within the United Kingdom. As Andrea Tani points it out, the English choice for Italy as industrial partner has been determined by a careful ruling out of the other European alternatives: Italy was, therefore, the last option available and the less problematic one.<sup>365</sup> According to the author, France would have been the natural beneficiary of English offers both for dimension and mission, but because of its superior technological might and the political repercussion that a likely act would have meant, it was safer to pass the ball to another actor. Tensions with Germany, especially on industrial matters, have pushed this latter towards industrial cooperation with France so that the last option available, albeit inferior, remained Italy.

As one expert on defence issues asserts, the Italian demand policy is fundamentally 'reactive', spurred more by the armed force and industrial pressures than by a precise and basic framework for action, an approach this one different from the English or the French ones were an active policy of exportation and R&D promotion has been undertaken.<sup>366</sup> Instead, the armament policy would be of the paramount importance to strengthen Italy's position and influence in cooperative contexts and to determine operational requirements harmonization, procurement rules standardization, arms exports regulations and markets openness.<sup>367</sup>

The Italian approach towards European cooperation appears uncertain, "Rome lack of national capabilities makes the European option desirable, independent of its merit. Italy has favoured multilateral solutions since 1949. But whereas in the European Community Italy soon gained the confidence to promote integration, convincing itself that the national and the 'communaautaire' were synonymous, in the area of defence it has had very little choice".<sup>368</sup>

On the industrial standpoint, some relevant steps forward have been undertaken in particular with the consolidation of Finmeccanica, which

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<sup>365</sup> Andrea Tani, "L'industria della difesa italiana e il Regno Unito", *Pagine di difesa*, July 19, 2004, [www.paginedidifesa.it/2004/tani\\_040719.html](http://www.paginedidifesa.it/2004/tani_040719.html)

<sup>366</sup> Fabio Gobbo et al., *L'industria italiana degli armamenti*, Rivista Militare, CeMiSS, Rome, 1990.

<sup>367</sup> Segretariato Generale della Difesa/DNA "I rapporti Internazionali. La politica degli armamenti, una funzione basilare per il sistema paese", [www.difesa.it/Segretario-SGD-DNA/SGD-DNA/Rapporti-internazionali/](http://www.difesa.it/Segretario-SGD-DNA/SGD-DNA/Rapporti-internazionali/)

<sup>368</sup> Filippo Andreatta and Christopher Hill, "Italy", in Anand Menon and Joylon Howorth, ed., 1997, p. 68.

has permitted to deal almost on an equal footing with the major transatlantic and European partners. Improvements on the technological sector have been determined in particular thanks to huge production licences contracts; of course this capability falls short of those of the other European states. As Burkard Schmitt puts it, Italy's profile as a smaller European partner makes it opt for joint ventures rather than real European alliances, "as one of the smaller players, Finmeccanica could never become an equal partner in a global alliance with EADS or BAe Systems. Only partnerships limited to specific sectors allow real co-decision. Finmeccanica therefore prefers to integrate its subsidiaries into bilateral 50:50 joint ventures; if this is not possible, the group tries to participate in multilateral joint ventures where a minor shareholder can still benefit from varying majorities".<sup>369</sup> Italy is both a member of OCCAR and LoI, and this of course is important for its position within the overall defence landscape both on the demand and supply side of defence procurement. In both cases, though, ratifications of the agreements have been characterized by huge parliamentary debates: Italy was in fact the last partner to ratify them (2001-2003). Participation in international cooperation structures is paramount to be engaged in the most relevant projects and to monitor other developments; Italy's engagement in international forum is deemed as unsatisfying, "I believe that often we attempt at putting emphasis on the national requirement...I am firmly convinced that Italy has a fundamental requirement identical to that of the English, the Germans, the French and the Spanish and that mental reticence and the excuse of the peculiarities of the requirements create a resistance to a process change".<sup>370</sup> Also, Italy's has posed some problems to the development of European cooperative projects: as in the cases of the Eurofighter or of the FREMM Frigates, the lack of a defined financial commitment has postponed and delayed the programmes, confirming a sometimes lukewarm contribution to a European defence might.

### **3.5.5 Other states' capabilities: general overview**

Aside from the big leaders in the European landscape it is possible to find other states which do not have a big defence industry, but which

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<sup>369</sup> Burkard Schmitt, in Simon Duke, 2002, pp. 155-156.

<sup>370</sup> Amm.Sq Gianpaolo Di Paola, "La politica degli armamenti e la politica industriale della Difesa" , *Informazioni della Difesa*, 3, Cerimonia di Chiusura Centro Alti Studi per la Difesa (CASD), June 2001, pp. 71-72.

have niche productions, meaning that they are specialized in the production of a particular but fundamental component or key technology: Sweden, Spain, Belgium, Denmark, the Netherlands, Norway and Switzerland. For these reasons these states do not dispose of prime contractors but of subcontractors which are fundamental both in the United States and in Europe, "...it is a fact that most US weapons systems and subsystems today are dependent on offshore producers for numerous critical components".<sup>371</sup> These states import the most of their defence equipments or build it under licenses.

Small states without relevant defence capabilities rely, in general, on the United States as a way to counter a potential hegemony by European states: for this reason it will be particularly difficult to encompass these states in a Europe-led process of common procurement. Moreover, abandoning the traditional *juste-retour* principle would be deleterious for these states which cannot succeed in competing with other European states on an equal footing. Cooperating with America is also a way to win a share of the US market and improve the technological knowledge.

### 3.6 Conclusion

The aim of this third chapter was to present the regime on defence procurement existing within the European landscape. After having mentioned the principles driving this regime, such as the value of standardization and harmonization and the value of a European independent defence might to face world challenges, derived norms have been pointed out. As for rules and decision-making procedures, the elements that specify the principles and the norms of a regime, a careful attention should be paid to international organizations since these latter are the entities more likely to provide and define determined practices.

Before considering the regime, emphasis has been put on the fact that since their creation the European internal market procedures have seen the exclusion of defence items under article 223(now Article 296), recognizing the sensitiveness of the issue area for states' national interests. This has stemmed any successful attempt at fostering a more competitive market in this sector. Notwithstanding that, the European Commission has attempted to render more transparent the defence

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<sup>371</sup> Ethan B. Kapstein, *The Political Economy of National Security: a Global Perspective*, McGraw-Hill, Harvard University, New York, 1992, p. 98.

market among European states and to limit the misuse and abuse of Article 296, so as to improve the European defence and its industrial base. Its Green Paper on Defence procurement has opened up a debate to favour competition among European states. POLARM and EDA stand as other important achievements. Nevertheless, the shortfalls of these arrangements, inserted within the institutional context of the European Union, are their broad membership and their stumbling decision-making procedures which render almost impossible every step forward.

Outside of the European Union, WEAG has searched to harmonize states' requirements by pooling countries to discuss possible initiatives; this process fell short of success. LoI and OCCAR do represent the demand and supply side of defence procurement and do exhibit some promising provisions: nevertheless, their working base is quite restricted as only the most important defence producers participate as members in the Organizations. As seen in the first chapter, the initiative of powerful states is paramount to bring about concrete achievements: therefore a quick outlook of the four leading nations and their related strategic options has been attempted in this chapter.

France, together with the United Kingdom, is the most important European defence producer. It has always put an emphasis on technological research and development as a source of power; its power position has made it the main promoter of European initiatives with a view to lead them and to make up for national shortfalls. Given the huge economic challenges it has to face, France is much more prone to cooperation today but prefers European cooperative projects where it can preserve a leader position. Inevitably, relations with the United States have been tense on some cases; on other, instead, fruitful cooperation has been searched and reached to the benefit of both countries. The United Kingdom 'European-move', as someone has called it, should be interpreted through the lenses of its special relationship with the United States: assuming a leading role in European defence creation has assured the consideration of the Atlantic Ally's exigencies. The UK's emphasis on 'value for money' and smart procurement has paved the way for a more efficient and reasoned acquisition process: as a powerful state, it has protected the national industry and favoured national interests but its pressure on competitiveness has had deep impact also on other countries' procedures. Germany's reunification and improved position has permitted to enhance its role as contributor to European defence. By converse, Europeanization and integration as processes are likely to

increase Germany's power position and play down internal reticence to military affairs. Italy's defence stance has been fundamentally shaped by continuous ambiguities and uncertainties towards a European security and defence path: its flirting relations with the United States and with the United Kingdom, together with its feeble and indecisive stance in European collaborative projects, have arisen more than one doubt on its reliability as fundamental and trustworthy partner.

Notwithstanding divergent interests, different relations and different strategic opportunities, all the four outstanding European defence producers have opted for OCCAR (*Organization Conjointe de Coopération en Matière d'Armement*) as multinational agency for the management of cooperative European project, deciding to coordinate their actions on the procurement of some complex European programmes, a decision this latter that will be investigated in the following chapter.



## Chapter 4

# States' coordination in defence procurement: the case of OCCAR (Organisation Conjointe de Coopération en Matière d'Armement)

### 4.1 Introduction

Why do European States coordinate their actions in defence procurement? Answering this question by saying that this is the most efficient way to build complex weapon systems hides a series of other deeper motivations that go well beyond pure economic reasons. Of course, these latter are of the paramount importance given today's reduced budgets for defence faced by all European States. Nevertheless, if we jump one step further and try to answer the questions "so why is the production of these weapon systems paramount?" or "what do we need these weapons for?" it is clear that a pure economic answer is at best incomplete. Is coordination in defence procurement a cause or an effect of broader processes? If we answer the first question posed it is apparently an effect of reduced defence budgets, while if we answer the other two it becomes the tool to achieve national or European interests. What is important to stress, though, is that a field of investigation such as this one that has to do with the production of military equipments, either for protective or for destructive reasons, cannot but remind to the security of a state, interpreted this one more broadly than simple survival.

During the time, different attempts have been made by European states, and especially allies, to cooperate in defence matters but with scarce results: because of the peculiarity of 'defence procurement', intended this one as the acquisition and management of weapon systems, states have difficultly found agreements on the arrangements to be achieved through cooperation. Multiple reasons can explain this fact: the fear of loosing political control over a programme, the fear of loosing jobs related to defence industries; the fear of loosing relative competitiveness in industrial production or technological capabilities; the fear of seeing the national operational requirements adapted to other states' exigencies. Of course, all the aforementioned risks have had different impacts on states according to the relations entertained with other actors and especially with the Atlantic Ally and to their power capabilities, that in this case become 'defence capabilities': even if not always able to pursue unilateral paths, more powerful states are those more likely to advance and achieve their interests in cooperative settings. This happens because without them cooperation is not likely to come about or is simply pointless. Instead, less powerful states have basically had two alternatives: either to cooperate and being somehow overshadowed by more powerful states, or to buy equipments off-the-shelf, especially from the transatlantic ally.

As said before, powerful states are not always able to procure by themselves the equipments needed: weapon systems are now more expensive, defence budgets more inadequate and international threats more arduous. In particular, this latter reason seems to answer better the two questions posed above, because it addresses directly the importance of procuring weapons in cooperation. Therefore, to understand why states coordinate their actions in defence procurement it is necessary to take into account two elements: first the aforementioned pressures rendering unilateral path not impossible but apparently onerous and second the possibility to achieve own interests trough cooperation. Against this background, it is more likely that coordination takes place among similarly powerful states that can get effective returns from cooperation and that can make count their bargaining power on an equal footing. A similar coordination path is both an achievement and a limitation: on the one hand it is the most likely configuration attainable among actors. On the other hand, once states decide to coordinate and therefore to limit and be limited by other states' positions, a never-ending process of compromises and negotiations start to push the agreement towards the most wanted outcome.



All these considerations apply to OCCAR (*Organization Conjointe de Coopération en Matière d'Armement*), an International Organization for the management of weapon systems in cooperation created by the will of the four most powerful producers and consumers of defence systems in the European context: France, Germany, the United Kingdom and Italy. Assisting the stalemates present at the European level regarding the formulation of a common defence strategy and common defence structures, and pressured by the new challenges emerged, these states agreed to create an organization dedicated to the procurement of weapon systems in cooperation with own rules, regulations, values and procedures. The first aim of this chapter will be therefore to investigate the path toward the creation of this Agency, the features of the arrangements agreed upon and the standard procurement procedure adopted by states.

While analysing all these steps, the chapter will highlight the controversies arisen among states, the different interests pursued through the same organization and the limits these factors have caused on the overall organization functioning and aspirations. In particular, a short history of the programmes integrated in OCCAR will be provided with the aim of emphasizing both the delays and the added costs determined by states' reluctance to give in on individual positions and the compromises decided in order to carry forward the programmes. For the economic, industrial and strategic relevance of the Aircraft A400M a separate analysis of this programme will be brought about. The aim, again, is to underline the difficulty of coordination in defence issues but the necessity to do so: OCCAR does represent only one coordination point, even if a relevant one. The intergovernmental character of the organization requires coordination whenever a new decision has to be undertaken; nevertheless, without this peculiarity the agency would probably have not been created at all.

## **4.2 Towards OCCAR**

The first section of this research is aimed at considering the steps that led to OCCAR' s creation. It will be underlined how some European states, pressured by economic, industrial and strategic constraints, decided to coordinate their actions in what can be considered the basic and preliminary step toward a common defence: a common weapon procurement system. Differently from past experiences, the states that founded OCCAR decided not to rely on *ad hoc* agencies but instead envisioned an institutionalized pattern of cooperation trough which to

achieve efficient performances and pave the way for a common defence posture. In fact, the idea of working together, accepting the same procurement procedures and adhering to the same values, principles, regulations and decision-making procedures was intended to help mitigate differences in weapon requirements definition and increase therefore interoperability among their Armed Forces.

It was during the '90s that European States started to play more strongly the European card in defence matters and to delineate the features of a common posture: "the European Defence implies the definition of common interests, the setting of a common research and development, investment and procurement policies".<sup>372</sup> Early in the '90s, in an attachment to the Maastricht Treaty, states pertaining to the Western European Union (WEU) manifested their interest in creating a European Armament Agency. Nevertheless the sluggish process toward the creation of such an agency underlined the different positions that existed among European actors, "Europe's slow progress on improving joint procurement is not for want of ideas. Numerous reform proposals have been suggested, including the creation of a fully-fledged European Armaments Agency. A declaration attached to the EU's 1991 Maastricht Treaty is calling for the creation of such a European Armaments Agency. More than a decade later it still does not exist".<sup>373</sup>

While France and Germany have always backed a structure similar to the one envisioned in the Maastricht Treaty other states, for different motivations, have downplayed this initiative: the smallest ones for fear of becoming hostages of the most powerful actors and of finding their defence policy moulded according to other states' interests; the biggest ones for their willingness to shape in a precise way the structure of the Armament Agency in order to fulfil their strategic interests.

The years between 1996 and 2001 have been particularly meaningful for the creation of a European defence might because of outstanding pressures arising from different contexts. Immediate causes were the Gulf War and the Balkan conflicts but also the more ongoing perception that the world scenario was slowly but irremediably

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<sup>372</sup> Jean-Paul Béchat, "L'Europe de la Défense", *Défense Nationale* 6, 2001, p. 15.

<sup>373</sup> Daniel Keohane, "The EU and Armaments Co-operation", *CER Working Paper*, Centre for European Reform 2002, p. 23. See also the Maastricht Treaty Attachment, "Declaration on Western European Union", *Official Journal C191*, July 29, 1992, [http://europa.eu/eur-lex/en/treaties/dat/EU\\_treaty.html#0105000050](http://europa.eu/eur-lex/en/treaties/dat/EU_treaty.html#0105000050).

changing, posing new challenges and requiring new tools to speed up the formation of a European approach toward defence matters. It is in this context that the Franco-British declaration of Saint-Malo in 1998 came about, together with other important initiatives such as the European Summit in Cologne of 1999, the integration of the WEU (the long-standing European structure of defence) in the EU -with Javier Solana nominated as high representative of the Foreign and Security European Policy, the 22<sup>nd</sup> Franco-British Summit on November 1999, the 74<sup>th</sup> Franco-German Summit on 30<sup>th</sup> November 1999 and, in the same year, the European Council in Helsinki. This latter, with the Nice Summit in 2000, has highlighted the willingness of fifteen states to create a European Rapid Reaction Force to be composed of 60000 units and to be provided with a surveillance system, a force projection system as well as an interoperable system of command; the idea behind this was to create a truly European independent capability able to intervene and operate in out-of-area missions.

All these Declarations drove to the conclusion that, in order to work together, states had to provide not only a common definition of interests but also a common definition of requirements- a more difficult outcome this one-, together with a common effort in research and development. Standardization of armaments, in fact, constituted the highest probability to concretize the objectives delineated in the European Councils. Given the difficulty of achieving such an outcome 'interoperability', intended as the possibility of being able to work with similar equipments and structures, seemed a more likely option. Nevertheless, until the end of the '90s this blueprint fell short of the expectation, "defence implies common interests and orientations in terms of military equipment, research and development, investments but also of organization defining the framework of common defence...thus far all the endeavours made in order to find a common and minimal position that would underline the specificity of armament sector brought to no result"<sup>374</sup>.

Every Declaration at the European level emphasized the difficulty of bringing about the desired outcomes, underlining the different positions and therefore the compromise decisions achieved. For example, aside from the positive results, Nice has been interpreted also as a Declaration reinforcing each state's divergent position, "aside from multiple positive initiatives among which the definition of roles of the COPS or of the Military Committee a relevant political aspect has been

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<sup>374</sup> Jean-Paul Béchat, 2001, p. 15.

missed, the willingness to extend also to defence activities the criterion of reinforced cooperation. As it is known, reinforced cooperation permits to go ahead in the integration phase even when a unanimous will does not exist".<sup>375</sup> This statement underlines that even if states agreed in principle on coordinating their actions, the implementation of these latter seemed to be complicated by specific interests.

### 4.3 OCCAR' s creation

Within this gloomy context, the consideration about the creation of a procurement agency encompassing all the most important European producers and consumers of defence was twofold: on the one hand the power base of the entire European defence might resided in the states composing OCCAR, and that meant that their coordination was paramount to achieve concrete results and foster the European Defence Industrial and Technological Base (EDITB). On the other hand, the limited membership emphasized the idea of a Europe at two speeds and of an 'exclusive club'. Below a short history of OCCAR' s creation is presented, outlining how this structure can be considered as a successful process of coordination among states, coordination that was characterized by divergent positions and compromise solutions, but that brought about tangible steps forward while satisfying states' interests.

OCCAR is a Multinational Organization for the management of armament programmes in cooperation, and was established by an Administrative Agreement in November 1996, by the French, Germany, Italian and English Ministries of Defence. The arrangement has been signed by the four states in 1998 in Farnborough and ratified later on. The same nations signed a Treaty, the OCCAR' s Convention, which explains the vision, the mission but also the rules and decision-making procedures agreed among them. With national ratifications on January 2001, OCCAR achieved a legal status and became an International Organization able to define and award contracts and to have its own staff.

OCCAR' s origins are to be found in a previously-established agency between France and Germany, operative starting from February 1996. Cooperation between France and Germany on armaments procurement

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<sup>375</sup> Alberto Lina, "Risultati e prospettive nella strategia delle alleanze e nel processo di privatizzazione dell'industria della difesa", *Quaderni della 53° Sessione*, Istituto Alti Studi per la Difesa, 2002, p. 3.

was not new: a series of *ad hoc* structures existed and remarked the two states long-term collaboration; among them were the *bureau des programmes franco-allemands* (BPFA), *le Bureau technique des programmes* (BTP), the *Deutsch-Französisch Helicopter Büro* (DFHB). France and Germany, eager to develop a joint armament structure, but aware of the persistent disagreement among them concerning the structure of the would be Organization, decided in 1993 to form a cooperative armament structure to promote various programmes, rationalize operative requisites and speed up the production and completion of just existent joint weapon systems. The guiding lines of this structure were set in the Franco-German Summit in Baden-Baden in December 1995<sup>376</sup> and afterwards inserted in the precursory team created in 1996 and established in Bonn. The principles set by France and Germany in Baden-Baden are still OCCAR basic principles: cost-effectiveness, harmonization (of requirements, methods and technology), competitive industrial base, renunciation of the *juste retour* principle and openness to other European countries.

It is clear that what pushed France and Germany to foster a joint rationalization of defence procurement was the amount of military programmes they shared.<sup>377</sup> The way to speed up their development, to face decreasing budgets for defence and to reinforce a European Industrial Base was to advance coordination among their needs and

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<sup>376</sup> The five Baden-Baden principles are: a better relation between costs and performances to be obtained by a rationalization and optimization of the programmes management and by a reformulation of procurement procedures which will promote the creation of transnational prime-contractors; harmonization of requirements, methodologies and technologies every time that military imperatives allow this within a common investments frame based on complementarity, reciprocity and balance; improvement of the competitiveness of defence industries, by promoting the creation of industrial excellence poles and by developing links among societies; refusal of the analytical calculation of industrial *juste-retour* to the benefit of a multi-year and multi-programme balance; openness to other European States subject to their adherence to the abovementioned principles. These principles were said to “offering European Nations an alternative mean of breaking away from traditional, and often inefficient collaborative management and procurement practices”, see LT. COL. Helmut Reda, US Air Force, “Understanding OCCAR-Organization for Joint Armament Cooperation: Potential Tool in New Era of European Arms Procurement”, *Project Manager*, March-April 1999, p. 61.

<sup>377</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

their industrial capabilities, and to go over traditional forms of cooperation.

French position on this matter was underlined by Minister Charles Millon, which emphasized in those years that “the national defence will be neither independent nor autonomous if it does not take into consideration the European dimension. It is apparent that today it is necessary to build European poles if one wants to face the American defence market. It is in this spirit that France...has proposed the constitution of a European Armament Agency”.<sup>378</sup> As apparent from the Minister’s words, France’s desire to advance the case for a European Armament Agency was spurred also by the willingness to compete on an equal footing with the overwhelming American defence market, so as to retain and improve European strategic independence.

Of course, all four nations had apparent reasons to prop up OCCAR, nevertheless it was France that more visibly supported the organization and conferred to it a huge strategic and economic value. France participates in all but one programmes in OCCAR and pays the most substantial financial contribution to the organization. At the political level, France claims the importance of OCCAR for the creation of a European defence, independent from the United States. Some experts argue that France has conceded a lot in order to bring about this organization specifically for the importance attached to the creation of this structure. For this reason, it is easy to understand why France deemed the British and Italian adherence of the paramount importance for the efficacy of the organization: the creation of it could have constituted the bulk of a European Agency that without the United Kingdom and Italy would have lacked most of its strength given that Italian naval sector and British technology and aerospace activities were paramount for an encompassing defence scenario. Probably, reluctance on the part of France to these states’ participation would have pushed them toward the US as it has often been the case with the United Kingdom and Italy.

Germany’s historic collaboration with France on economic and military matters together with the need to reaffirm its European stance has rendered the state the obvious partner of this enterprise. Once created, the agency attracted the attention of the remaining “big” European defence producers(the UK and Italy). These latter were

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<sup>378</sup> Charles Millon, “Séance du 23 Octobre 1996, Débat sur une Déclaration du Gouvernement », Sénat Français, Octobre 23 (1996), <http://www.senat.fr/seances/s199610/s19961023/sc19961023015.html> .

facing the same economic and industrial challenges of France and Germany, but had different strategic postures and exigencies. Their jump up into the wagon meant that they agreed to participate in a structure with previously defined principles. Nevertheless, their stance and their potential contribution to a European Defence might conferred them, and especially the United Kingdom, a certain leverage in the moulding of the organization procedures and development. According to the United Kingdom and Italy, it was necessary to participate in the organization both because of the necessity to improve a European Defence Capability and also because of the importance of being within such a structure to control its development.<sup>379</sup> In fact, France and Germany would have created the agency with or without other states' participation, "the two governments stated that they could not afford to wait for all thirteen WEAG member countries to reach agreement and argued that progress on common procurement systems could best be achieved through a bilateral structure open to others who agreed to adhere to its policies on eliminating *juste retour* and European preference".<sup>380</sup>

Staring from this consideration is important to understand why cooperation between the two most powerful European continental states has attracted the attention of Italy and the United Kingdom in what was perceived as an institutionalized defence cooperation. The potentialities of the organization assessed, all of the four most important arms producers and consumers in the European context gave birth to this management structure, emphasizing the importance of coordinated action to a successful European defence stance "in the process of growing European integration even in the defence field, OCCAR represents a successful example of collaboration among states started in 1996 with the push of France, Germany, Italy and Great Britain defence Ministers..."<sup>381</sup>

One of the most interesting issues to investigate is the United Kingdom's adherence in a structure that strongly emphasized its European stance. As said before, France showed interest in the participation of the United Kingdom and Italy, even if the Minister of

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<sup>379</sup> Security coordination among states has among its paramount objectives that of controlling the actions of the partners. This has characterized all cooperative armaments structures.

<sup>380</sup> Keith Hayward, "Towards a European Weapons Procurement Process", *Chaillot Paper* 27, Institute for Security Studies, Paris, 1997, p. 27.

<sup>381</sup> OCCAR-EA "Frequently Asked Questions", OCCAR-EA Institutional Aspects, <http://www.occar-ea.org/view.php?nid=141>.

Defence Millon stated that the Franco-German agency was not the one proposed at the beginning from France.<sup>382</sup> The adherence to the organization first and the declarations made afterwards, such as at St. Malo followed a consistent English policy, aimed at controlling and therefore participating in European initiatives together with a desire to pursue a double-track path on defence matters. Of course, the UK was able to exploit its power in this issue-area by being one of the most important producers of European defence systems and by making count its relation with the United States: inevitably linked to its transatlantic ally it was able to downplay the potential critics aimed at representing OCCAR as a contributor to the “fortress Europe” argument. Also, because of its power, the United Kingdom knew that by participating it would have been able to mould the structure of the Organization, “they want OCCAR to get on with proving its competence in its core tasks, and establishing its credibility, before it is transformed into something more powerful”.<sup>383</sup>

In the discussions arisen within the English defence context, and regarding the adherence to the Franco-German structure, it was emphasized that in the case of a British engagement in the Organization, precise and detailed management procedures for cooperative programmes would have to be defined before any commitment, and that the United Kingdom would have not relinquished its control and monitor benchmarks.<sup>384</sup> Among other questions arisen about the way in which the MoD would have guaranteed the commercial interests of the British defence equipment industry in the trilateral Organization (France-Germany-United Kingdom), were those related to the number of personnel coming from the European Commission, the WEU, the French Government and armed forces, the German Government and armed forces and NATO, the number of the British Procurement Executive personnel to be transferred in Bonn and the sharing of the agency budget among the three states, the EU, the WEU and NATO in the first year of existence.

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<sup>382</sup> Charles Millon, “Séance du 23 Octobre 1996, Débat sur une Déclaration du Gouvernement », Sénat Français, Octobre 23, 1996, <http://www.senat.fr/seances/s199610/s19961023/sc19961023015.html>.

<sup>383</sup> Daniel Keohane, 2002, p. 31.

<sup>384</sup> The United Kingdom Parliament, “Franco-German Armaments Agency”, House of Commons Hansard Written Answers for March 7, 1996. <http://www.publications.parliament.uk/pa/cm199596/cmhansrd/vo960307/index/60307-x.htm>.



The National Audit Office reports proposed five performance indicators regarding programme time, programme costs, equipment performances, administrative efficiency and administrative overhead. Of these five the first three measures were set in OCCAR. The United Kingdom's role in OCCAR matters had to be a very proactive one in accordance with English cooperation practices; in fact, as stated in a report for the Ministry of Defence, the United Kingdom should have a sound assessment of risks and benefits from cooperation and should play an important role in its development, "the Department should pay particular attention to these success factors in deciding whether to co-operate and, if co-operation does take place, what form the co-operation should take".<sup>385</sup>

The United Kingdom's decision to join the Franco-German agency came about with a look at France's new approach toward defence procurement, aimed at both emphasizing the European vision and at facing its declining defence budget. During the '90s France carried out a process of privatisation of its industries and in particular of the GIAT (Groupement Industriel des Armements Terrestres), opening up the possibility for this to be controlled by foreign groups. The United Kingdom's adherence to the agency was concretized with its participation to the construction of an armoured vehicle (the future BOXER, see below), "discussions with France and Germany on participation in the Franco-German Armaments Agency will commence following completion of work on the tender documents for the armoured utility vehicle".<sup>386</sup> Given the challenges the French

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<sup>385</sup> Committee on Public Accounts, "Maximising the Benefits of Defence Equipment Cooperation", *Seventeenth Report*, The United Kingdom Parliament, March, 2001, <http://www.publications.parliament.uk/pa/cm200001/cmselect/cmpubacc/393/1032801.htm>. The lessons to be taken from past cooperative experiences teach that it is necessary to have a capable prime contractor, to make pragmatic decisions on the specific programme features to meet all the requirements and to soundly assess the risks existing when engaging in a cooperative project.

<sup>386</sup> House of Commons Hansard Written Answer for 18 March 1996, "Franco-German-British Armaments Agency", <http://www.publications.parliament.uk/pa/cm199596/cmhansrd/vo960318/text/60318w10.htm>. The UK considered carefully the benefits to be reached by producing in cooperation and producing on a national basis, knowing that because of its competitiveness it would have enjoyed the benefits of cooperation while assuring rewards for its defence industry, "the implications for British industry were taken into account in our decision to join the current competition which is planned to lead to a collaborative programme for a multi-role armoured utility vehicle". See above.

defence industry was facing and given the Baden-Baden principles, British industries could have resulted more competitive and efficient and easily win a contract once that *juste-retour* was discarded.<sup>387</sup>

The United Kingdom pushed strongly the case for 'competition' within OCCAR and obtained that the organization established management procedures and especially work through 'project teams' according to the Anglo-Saxon tradition.<sup>388</sup> That said, it is fair to underline that when competition is proposed by one of the biggest producers of defence systems this practically means that its big and advanced industry permits to share a huge comparative advantage over other states. This indicates that hidden in the UK's support for competitive awarding of contracts was the awareness of its huge industrial potentiality. Notwithstanding the role the UK had in OCCAR constitution, its participation in the organization programmes is limited to three of them: COBRA, A400M and PAAMS (managed by OCCAR only for the munitions procurement). This latter programme integration, as well as the A400M one, mirrors the United Kingdom's powerful and in some cases decisive stance in taking forward cooperation within OCCAR, a point that will be explained later on when discussing the single programmes.

Italy's ratification of OCCAR's Convention was the latest one and came about without prolonged parliamentary debates with almost unanimous consensus, so as to underline the importance of participating in such a structure, especially after the UK's adherence. At a careful look, it can be said that the ratification of the Convention was an important step and a turning-point in Italy's parliamentary debates of those years: only one year before in fact, hot issues within

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<sup>387</sup> Séance du 19 Juin 1996, "Programmation militaire pour les années 1997-2002", Discussion d'un projet de loi déclaré d'urgence, Senat François, 1996, <http://www.senat.fr/seances/s199606/s19960619/sc19960619018.html>. During this debate strong oppositions against the privatization of the defence industries have been emphasized by the whole political spectrum, with an accent to the inevitable loss of jobs, to the specialization required, to the downplaying of the French military might and to the likely dependence on banks that would have followed the application of the «commercial approach». In particular, strong protests have emerged regarding the decision of the French State to disengage from the development of the Future Transport Aircraft (then renamed A400M).

<sup>388</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

the Defence Commission emphasized the reasons for industrial compensation related to armaments contracts.

Italy made clear that it intended to participate in OCCAR on an equal footing with the other states and maintained that national prerogatives would not have been lost after its adherence to the organization, “political control is always on the forefront in OCCAR’s activities and Italy’s participation will be absolutely on an equal basis with that of the other countries”.<sup>389</sup> According to Italian personnel in the precursory team, Italy’s participation in the initial stages of cooperation was huge and its staff was charged with paramount and prestigious institutional positions, confirmed later on by the nominee of General Nazzareno Cardinali as Director of the Executive Administration. Moreover, under the Italian Presidency, Italy solved actively the mandate question (definition of Programme Decision arrangements) where different opinions existed among France and Germany, and that of the ‘reporting’ part embodied in the Business Plan.<sup>390</sup>

While it is simple to understand why OCCAR has been created just by these actors of the European scenario it is difficult to assess whether all states’ were motivated by the same interests or whether OCCAR was a common tool through which to achieve or preserve other interests. The most reasonable position is in between: it is fair to say that these states had both common and divergent interests but that the common interest did not impinge or was even preliminary to the pursuit of particular national interests. According to General Cardinali there were of course common interests among the founding members that together with Sweden(which participates in the LoI framework) are major producers

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<sup>389</sup> Gianni Rivera, Former Defence Under-Secretary «Ratifica Convenzione Italia-Francia-Germania-Gran Bretagna-Irlanda del Nord sull’istituzione dell’Organizzazione congiunta per la cooperazione in materia di armamenti (OCCAR)», 3rd Committee, Foreign and European Affairs, Italian Senate, September 28, 2000. For an insight of the political debate about industrial compensation in Italy see Carlo Sconamiglio Pasini, Former Minister of Defence, “Audizione del Ministro della difesa Carlo Sconamiglio Pasini, sulle compensazioni industriali correlate a contratti d’armamento”, *Audition*, 4th Defence Committee, Italian Senate, January 27, 1999.

<sup>390</sup> Colonel Antonio Padula, *Interview*, Italian Ministry of Defence, Rome, December 5, 2007. The first Director was a French one, while the headquarter of OCCAR-EA was based in Bonn. Klaus Von Sperber, German, was the second Director followed by General Nazzareno Cardinali. The next Director –from March 2008- will be a French one.

and consumers of defence products.<sup>391</sup> Common interests that, as shown below, were based on strategic and economic reasons. The fact that all these states experienced the same pressures at the same time pushed them together to coordinate their action and to converge on basic agreements. The same position is expressed by Colonel Antonio Padula, which participated in the precursory team and which affirms that all four nations intended OCCAR as a shared European project of the paramount importance, and adds that OCCAR came about as an incredible and without precedent amalgamation of different cultural approaches.<sup>392</sup>

It is reasonable to emphasize, though, that the Founding Members had specific priorities to take forward; while common interests did exist, the creation of the organization in the first hand was possible because each state was able to preserve its political control over it. This Organization is therefore both an incredible achievement on the defence procurement sector but also the reflection of power positions within the European defence scenario. All four founding states preserve a *de facto* veto position on most important decisions and make their weight count in every cooperative setting. In fact, what makes OCCAR of the utmost interest as a study subject is that aside from the balanced and almost equal power of the states in the basic structure, coordination 'struggles' can be found for every programme it is integrated within OCCAR and in every step the Organization aims at undertaking. As it will be seen later on when summing up the history and peculiarities of each programme, states agree to cooperate but differ significantly in the final result of cooperative arrangements. Divergent positions persist even at the very last stage of the weapon life, underlining that states continue to advance their preferred but divergent positions.

#### **4.4 How the four nations reached the coordination point**

The creation of OCCAR was aimed at eliminating the duplication and fragmentation of national procurement processes by building a single permanent structure able to supervise the acquisition and management of weapon systems for European States. Usually, cooperative programmes were handled through *ad hoc* and expensive agencies

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<sup>391</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

<sup>392</sup> Colonel Antonio Padula, *Interview*, Italian Ministry of Defence, Rome, December 5, 2007.

created every time a new programme had to be managed in cooperation. Instead, OCCAR's objective was to create a set of rules and procedures fit and applicable for every new programme, able to reduce in this way administrative and negotiation costs and to favour economies of scale, "as far as market exploration, development and testing are concerned, the fixed costs in an OCCAR programme are divided among the participating countries. In other words, economy of scale intrinsically leads to cost savings per produced unit and therefore to a more attractive quality-to-price ratio".<sup>393</sup>

Cooperation among states meant to optimise procurement activities through the lessons learned from past experiences, given that all four countries had cooperated with each other in the past on some defence programme.<sup>394</sup> In particular, lessons learned from traditional cooperation highlighted that the application of *juste retour* could not bring about the rationalization required to face plummeting budgets and could not strengthen a common European Industrial Base. Also, previous lessons taught that, most of the times, there was not a clear decisional authority on programme conduction; that personnel was not selected on competitive basis; that cooperation in a programme was a way to improve the national industry capabilities; that different national cooperation and procurement procedures did hamper and render burdensome coordination efforts.<sup>395</sup>

More in general, and as affirmed in the organization official documents, the reasons determining the birth of OCCAR are believed to be the fall of the Berlin Wall and the terrorist attack to the twin towers in September 2001: while the first fact did require a deep re-thinking of European position in the world chessboard as well as a considerable reduction in military expenditures by all nation states, the second event demanded for a snapshot answer, and made evident the necessity of working together following a unique European strategy through interoperable armaments.<sup>396</sup> In fact, it is in the '90s that the

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<sup>393</sup> Major General Guido Andries, "OCCAR Membership-Added Value for a Country with a Limited Defence Budget and a Small-Scale Arms Industry", *Military Technology*, Special Issue, 2004, p. 14.

<sup>394</sup> Colonel Antonio Padula, *Interview*, Italian Ministry of Defence, Rome, December 5, 2007.

<sup>395</sup> General Nazzareno Cardinali, "l'OCCAR ed il suo ruolo nell'integrazione dell'industria e del mercato europeo della difesa", Speech delivered to the Defence Committee of the Italian Senate, Rome, May 29, 2007c.

<sup>396</sup> Lieutenant Mariano Tocchi, "OCCAR", Briefing prepared for the Civil School of Defence, Powerpoint Presentation, Bonn, November 15, 2005, p. 5.

most important achievements in terms of a European defence policy have been brought about: OCCAR, LoI, ECAP (European Capability Action Plan) and WEAO (Western European Armaments Organization) were instruments aimed at promoting a thorough cooperation among European states on defence matters and were perceived by the Member States as structures within which to find and forge their position in the fluid international context.

OCCAR'S Convention presents a mingle of economic and strategic blueprints that can be considered the common original motivations behind the Organization's build-up: the economic aim asked for an increase in transnational cooperation with a view to improve efficiency and reduce life-cycle costs through optimised management tools, through incentives for the creation of prime contractors and through the achievement of more effectiveness in contract awarding. According to this aim, OCCAR has been thought as a management structure likely to foster competitiveness and face declining budgets for defence, "France expects that closer European defence ties, stronger industrial partnerships and combined procurement initiatives will boost military procurement spending efficiency".<sup>397</sup> Aside from that, was the idea that the promotion of competitiveness would have created poles of excellence reinforcing an autonomous European Defence and Industrial Base, "the principal motivations are basically two: the first is an economic one and is linked to the need to rationalize defence industry, the second is strategic and regards the consolidation of the American predominance from an economic and security point of view (security of supply): the necessity is that of being independent from America and carry forward independent defence plans".<sup>398</sup>

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<sup>397</sup> Pierre Sparaco, "Efficient Military Procurement Sought", *Aviation Week & Space Technology*, 151, 1, 1999, p. 36. The author points out that France's position in the second half of the '90s was deeply in favour of spreading development costs of military programmes, increasing interoperability and promoting a unified European defence policy. OCCAR was conceived as an helpful instrument to achieve these tasks.

<sup>398</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 30, 2005a. General Nazzareno Cardinali underlined that OCCAR's objective was to render European industrial panorama more competitive than the American one, favouring the pooling of national resources in transnational conglomerates (prime contractors) and fostering their performances by promoting competition as in commercial items market. He stressed that it was in the European interest to be more compact in order to be able to compete on a sounder basis with the United States. The

Strategically, OCCAR aimed at coordinating long-term requirements and technology investment programmes through complementarities (following the *global balance* principle), reciprocity and balance in order to foster a European security and defence identity, “the Organization points at downplaying a national exclusivity on defence issues to reach a division of the role among European states”.<sup>399</sup> The idea was that OCCAR could have paved the way for a thorough defence cooperation among European States by mitigating the hardest national discrepancies related to armament procurement, “OCCAR is a first step towards the elaboration *d’une Europe de l’armement*. Its creation...permits the constitution of a European armament market, by harmonizing operative requirements and by fostering interoperability of military materials, by reducing national costs thanks to international cooperation and to the integration of the planning-production and acquisition processes, by coordinating research and technology policies...Cooperation enhances the formation of a European defence identity”.<sup>400</sup> In the words of the previous OCCAR Director Klaus von Sperber “it is a defined objective for OCCAR to be a major player in the development of a European armament acquisition capability”.<sup>401</sup>

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Director added that of course the United States would prefer to be the leader on defence matters and control defence development but the strong imbalance existing on this issue should be imputed to the same European states and the dynamics arising within them.

<sup>399</sup> Senator Aventino Frau, « Ratifica Convenzione Italia-Francia-Germania-Gran Bretagna-Irlanda del Nord sull’istituzione dell’Organizzazione congiunta per la cooperazione in materia di armamenti OCCAR », 3rd Committee, Foreign and European Affairs, Italian Senate, September 28, 2000.

<sup>400</sup> Marc Reymann, Rapport sur le Projet de loi adopté par le Sénat autorisant l’approbation de la convention entre le Gouvernement de la République Française, Le gouvernement de la République Fédérale d’Allemagne, le Gouvernement de la République Italienne, le Gouvernement du Royaume-Uni de Grande-Bretagne et d’Irlande du Nord portant création de l’Organisation Conjointe de Coopération en Matière d’Armement (OCCAR), Assemblée Nationale, Foreign Affairs Committee, 11th Legislature, December 15, 1999 <http://www.assemblee-nationale.fr/11/pdf/rapports/r2025.pdf> See also OCCAR, “Convention on the Establishment of the Organization for Joint Armament Cooperation” , *Baseline Documents*, September 9, 1998, [http://www.occar-ea.org/media/raw/OCCAR\\_Convention.pdf](http://www.occar-ea.org/media/raw/OCCAR_Convention.pdf).

<sup>401</sup> Klaus von Sperber, “Foreword”, *OCCAR-EA Business Plan 2004*, Bad Godesberg Bonn, 2003, p. 3, [http://www.occar-ea.org/media/raw/BP\\_2004\\_issue01.pdf](http://www.occar-ea.org/media/raw/BP_2004_issue01.pdf).

As just mentioned, one of the principles motivating and guiding OCCAR's initial functions was to improve the competitiveness of the European Defence Industrial and Technological Base and to contribute to the creation of a European identity in the security and defence field.<sup>402</sup> An article of the Convention supporting this argument states that "to comply with defence and security requirements, or to improve the competitiveness of the European Defence Technological and Industrial Base, competitive tendering and the award of contracts, and especially contracts for armament-related research and technology activities, may be limited to companies, institutes, agencies or appropriate institutions under the jurisdiction of a member State participating in the programme concerned".<sup>403</sup> This Article, therefore, emphasizes how important was the objective of building up a European Defence Base and the way in which OCCAR could have contributed to this fulfilment. Also, the Article highlights the importance of the preservation of states' room of manoeuvre in defence issues. Both these objectives mirror the two contrasting and omnipresent aims characterizing defence matters: national prerogatives and European ones. In the same vein, the "European preference" statement presented in the Convention can be interpreted accordingly: strongly propped up by France, the 'European preference' argument embodied in OCCAR's principles matches with the attempt at supporting a European Industrial Base but also with the attempt by France at leading and forging the 'Europe of Defence' creation exploiting its strong efforts and engagement in that objective and its military might. It is clear that the UK did not see the 'European preference' argument as paramount as France did; this was one of that peculiar interests that pertained to some but not all states, a by-product of the more general objective of enhancing a common European defence pole. For the United Kingdom, the realization of the latter design could have been achieved without a clear-cut preference for European equipments. While its participation in OCCAR means also the acceptance of the 'European Preference' principle, its restricted involvement in the organization makes up for the divergent interests. Because of its history, its geography and of course its interests the UK has always

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<sup>402</sup> Lieutenant Mariano Tocchi, "OCCAR", Briefing prepared for the Civil School of Defence, Powerpoint Presentation, Bonn, November 15, 2005, p. 8.

<sup>403</sup> OCCAR Convention, Article 24, [http:// www.occar-  
ea.org/media/raw/OCCAR\\_Convention.pdf](http://www.occar-<br/>ea.org/media/raw/OCCAR_Convention.pdf).



searched to be part of those European arrangements that did not require a cession of sovereignty-sometimes even pushed by the United States-, both to pursue its continental concerns and to try to control and forge the arrangements development. In the case of OCCAR, improving economic performances and avoiding that Germany and France could determine the rules of cooperative procurement were among the principal aims motivating the United Kingdom' s participation.

Therefore, aside from its pure management functions, the organization would have contributed significantly to an overall cooperation among European states: the efficiencies it could have invited would have been spread out to the Second Pillar, sustaining the European Union building through a bottom-up process, "to develop, manage programmes in cooperation to improve efficiency as for performances, costs and delivery-schedule, to guarantee interoperability among armed forces and to contribute to the formation of an European identity in the security and defence realm".<sup>404</sup>

For France, OCCAR was the appropriate European frame where to cooperate for building *l' Europe de l' Armement*, emphasizing that "France's armament policy goes in a absolute European dimension".<sup>405</sup>

For Italy, OCCAR was aimed at reducing costs for procurement while improving efficiency, at improving the competitiveness of the European technological and industrial base, at creating a European identity and at progressively coordinating procurement policies within the context of the European Common Security Policy.<sup>406</sup> For Director General Cardinali "OCCAR wants to be a major actor in European demand-side reform in support of the European Defence and Security

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<sup>404</sup> Ugo de Carolis, "OCCAR Acquisisce Personalità Giuridica", *Rivista Aeronautica* 2, 2001, p. 20.

<sup>405</sup> Délégation Générale d'Armement, "L' OCCAR", *Dossier de Presse*, Bonn, January 17, 2002,

[http:// www.defense.gouv.fr /dga/ content/download/43694 /436433 /file/ la\\_dimension\\_europeenne\\_de\\_larmement\\_23\\_occar. pdf](http://www.defense.gouv.fr/dga/content/download/43694/436433/file/la_dimension_europeenne_de_larmement_23_occar.pdf) .

<sup>406</sup> 13° Legislatura, "Ratifica ed esecuzione della Convenzione tra il Governo della Repubblica Italiana, il governo della Repubblica Francese, il Governo della Repubblica Federale di Germania e il governo del Regno Unito di Gran Bretagna e Irlanda del Nord, sull'istituzione dell'Organizzazione congiunta per la cooperazione in materia d'armamenti (OCCAR) con allegati, fatta a Farnborough il 9 settembre 1998", *Disegno di legge*, 883° Hearing, Italian Senate, July 12, 2000. On this occasion only ten votes were against the provision.

Policy, able to play an agile and timely role in the delivery of military capability”<sup>407</sup>.

Some authors underline that OCCAR’s contribution to the tailoring of a European defence is visible in some of the programme it manages such as the A400M military transport aircraft, FSAF(Surface-to Air Anti-Missile Systems), BOXER(Multi Role Armoured Vehicle) and which are apparently thought for new European missions, “these Programmes will contribute in a significant way to improve projection and protection capability of European forces in the whole Petersberg Missions spectrum”<sup>408</sup>.

Summing up, according to the Founding Members, OCCAR was envisioned as a practical step towards a European Armament Agency because the major European armament producers and consumers had an advantage in coordinating their actions, “OCCAR-EA was created in 1998 by a group of four like-minded Nations, sharing a commitment to improve on past collaborative experiences, and each involved in a substantive collaboration project, which they were prepared to pass to OCCAR management. At that time no other nations were in quite the same position”<sup>409</sup>. As said before, in fact, European states had very different industrial structures and any attempt at promoting cooperation in the WEAG context was blocked by the fear of less powerful states of seeing defence issues driven by stronger ones. The group of nations was too heterogeneous to foster a common vision or at least to open the way for some kind of compromise or reciprocity

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<sup>407</sup> General Nazzareno Cardinali, “Collaboration in European defence Acquisition: Improved Outcomes”, *RUSI Defence System*, Summer 2005b, p. 27. Similar is the position of Peter Struck, Former Minister of Defence of the Federal Republic of Germany, which stated that OCCAR principles and practices, such as competition, the abandonment of *juste retour*, the fostering of industrial merging and the invitation of new members make this Organization an integral component of European defence and security policy, see Peter Struck, «An Integral Component of European Security and defence Policy », *Military Technology*, Special Issue, 2004, p. 10.

<sup>408</sup> Michele Nones, Stefania Di Paola and Sandro Ruggeri, “Il Processo di Integrazione del Mercato e dell’Industria della Difesa in Europa” *IAI Quaderni* 17, Institute of International Affairs, Rome, May 2003, p. 18. The Petersberg Missions are part of the European Security and Defence Policy, and have been included in Article 17 of the European Union Treaty. They cover: humanitarian and rescue missions, peace-keeping missions, crisis management and peace-making missions. See <http://www.iss-eu.org/esdp/04-mo.pdf>.

<sup>409</sup> OCCAR, “Institutional Aspects”, *Frequently Asked Questions*, <http://www.occar-ea.org/view.php?nid=141>.

clauses, compensation and offsets arrangements. The four states shared, even if in different degrees, some mutually undesirable outcomes: non-interoperable weapon systems, costly procurement programmes, fragmented markets and industries and low capabilities with respect to the United States. Coordination was therefore necessary to eschew the likelihood of these events to occur or persist.

## 4.5 OCCAR ' s principles, mission and values

As every International Organization, OCCAR has its own mission, values and strategic aims agreed upon by Member States. The objective of this section is to briefly present them so as to analyse the benchmarks leading its functions. As it will be seen, these yardsticks have been changing during time according to states' will as well as to mutations occurred within the European landscape. From this point of view, OCCAR can be interpreted as a dynamic organization trying to cope with the constraints posed to its actions but also trying to get the best out of its assigned tasks.

OCCAR' s current missions- intended as the main purposes and functions of the organization-<sup>410</sup> are to coordinate, control and develop the programmes conferred by Member States; to ameliorate the efficacy of programmes in terms of costs, delays and performances and to coordinate and promote joint actions that will favour future common programmes. Comparing the Business Plans delivered in the last four years it is possible to perceive that some modifications did take place: in 2003 OCCAR' s mission was to "become the best multinational defence acquisition agency", while in the following Plans the mission has turned to a more modest facilitation and management of collaborative European Armament Programmes and Technology Demonstration Programmes in order to satisfy customers(nation states).<sup>411</sup> If the end mission has not changed, the perspective is now different. In fact, by emphasizing customers and their satisfaction as OCCAR' s final end something seems to be lost from the organization' s initial aim.

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<sup>410</sup> OCCAR, "Corporate Management", OCCAR Management Procedure 3, Section 2, July 2006, [http://www.occar-ea.org / media/ raw/ OMP3\\_Corporate\\_Management\\_issue2\\_010706.pdf](http://www.occar-ea.org / media/ raw/ OMP3_Corporate_Management_issue2_010706.pdf).

<sup>411</sup> See OCCAR Business Plan 2004, 2005, 2006, 2007, Corporate Documents, <http:// www.occar-ea.org /view.php?nid=162>

This organization was thought to facilitate but also to rationalize national procurement by integrating collaborative European programme in a institutionalized and permanent structure able to speed up and optimise programmes development. While OCCAR, as organization, still preserves this objective, the emphasis of its functions is posed more on its role as a management structure rather than on its potential as European armament agency. This is due to the advent of EDA(European Defence Agency) which has somehow reshaped OCCAR' s priorities and has overtaken some of its original functions. Because of its enlarged participation, EDA is believed to be the truly and appropriate European setting for requisite harmonization among states. Nevertheless, OCCAR' s functions are still of the paramount importance: OCCAR is an intergovernmental organization composed by national states aimed at resolving some of the problems that the same face when cooperating, namely to obtain a better cost-benefit trade-off of their military expenditures by avoiding duplication in production lines and by pooling resources, and to make up national divergences by favouring dialogue and applying a sole procurement strategy. All this should avert delays and postponements of military programmes and forge common positions among participating members. As stated in Article 7 of OCCAR Convention, this organization "shall coordinate, control and implement those armament programmes that are assigned to it by Member States, and coordinate and promote joint activities for the future, thereby improving the effectiveness of project management in collaborative projects, in terms of costs, schedule and performance".<sup>412</sup>

OCCAR vision is what the organization envisions to become in a time span of normally five to ten years. It represents the maximum achievement OCCAR aims at reaching, that is, to be a "centre of excellence" or the agency to whom national states refer to procure armaments in collaboration, "to become the best procurement agency in the defence realm for multinational programmes is a duty mirrored in the same structure and toward which we all should confront with the absolute intent to reach it".<sup>413</sup> During past years OCCAR vision has been modified significantly, and even in this occasion it is possible to observe a discrepancy between 2003-2004 and the following Business Plans. In 2004, the vision was much more encompassing and European-oriented: "serving the multilateral defence equipment needs of the

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<sup>412</sup> OCCAR Convention, Article 7.

<sup>413</sup> OCCAR, Frequently Asked Questions.

OCCAR Member States and assisting the collective needs of Europe”.<sup>414</sup> In all other Business Plans the vision was that of being a centre of excellence and first choice in Europe in the field of collaborative acquisition of defence equipment. If EDA, created in 2004, has implied a downscaling of the organization’s field of activities, it has nevertheless to face problems related to a large membership and overall consent achievement so that OCCAR may remain for its Member States a preferential channel to speed up cooperative solutions whenever EDA is not able to go ahead with its functions.

OCCAR ‘Strategic Aims’ are “statements of strategic intent addressing specific desired outcomes of activities deriving from the Mission Statement and giving clear direction and focus for such activities”.<sup>415</sup> Among OCCAR strategic aims are first of all those referred to the customer perspective, which envision the objective of optimising delivery schedules, performances and costs of programmes, according to the High Level Objectives agreed upon by Participating States. Also, there is the aim of being the most efficient instrument for managing European programmes and fostering communication and exchange of information among European structures(i.e., EDA) regarding defence acquisition issues, “we will improve and extend our networking with national and European security and defence actors, in accordance with our business development strategy, in order to increase OCCAR visibility and reputation in the field of collaborative programmes and Technological Demonstrator Programmes management”.<sup>416</sup> As for the

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<sup>414</sup> The business strategy was to facilitate and manage all major future European collaborative armament programmes in line with European goals; to be in 2006 a defence acquisition service provider for OCCAR Member States and non-Member States; to be recognized as the centre of excellence in the field of cooperative acquisition of defence material and to be joined by other participants. See Business Plan 2004, p. 4.

<sup>415</sup> OCCAR Management Procedure 3, “Corporate Management”, Section 2.

<sup>416</sup> General Nazzareno Cardinali, “Foreword”, *OCCAR Business Plan 2005*, Bad Godesberg, Bonn, 2004, p. 5. [http:// www.occar-ea.org/media /raw/ business\\_plan\\_brochure\\_2005\\_final.pdf](http://www.occar-ea.org/media/raw/business_plan_brochure_2005_final.pdf) . The aim at improving synergies with EDA (European Defence Agency) is strongly underlined in OCCAR Business Plan 2006 and 2007, stressing that the organization finds itself at a crucial watershed for its development; in fact the organization’s aim is to “pursue the work initiated in 2006 on the definition of the interface between EDA and OCCAR, test this interface through its concrete application on projects initiated by EDA in 2007”, See Business Plan 2007, Milestones/Anticipated Progress, p. 21,<http://www.occar->

financial strategy, OCCAR aims at managing efficiently its programmes given its resources. Internal Processes Perspectives refer to the intention of fostering integration of programmes and Technology Demonstrators as well as of optimising its management capabilities. Finally OCCAR aims at specializing and optimizing its staff work.

It is safe to affirm that the achievement of all blueprints OCCAR is driving at depends in a significant way on Member States: what OCCAR can do is to improve its management tools so as to be considered as an efficient structure and to try to provide services advantageous for states.

OCCAR values are ethical standards that motivate and guide its activities. For OCCAR these values are the belief in Europe's future, professionalism, teamwork, positive attitude towards change, cultural diversity and integrity.<sup>417</sup> OCCAR mission, values and strategic aims are defined by the Board of Supervisors (BoS), made up of Member States, with the support of the Executive Administration Director. Aside from the aforementioned issues OCCAR Business Plan encompasses objectives, planned activities and the resources needed to achieve them. It is therefore a guide for attaining the Strategic Aims.<sup>418</sup>

## 4.6 OCCAR' s structure

The section that follows deals with OCCAR' s structure and will therefore illustrate the way in which Member States have decided to shape the Organization. The element that pops up immediately is its intergovernmental character: Member States are in full control of every fundamental activity and this probably has sustained its creation in the first hand.

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ea.org/media/raw/Business\_Plan\_2007\_issue1\_Brochure\_Format\_single\_page\_s.pdf

<sup>417</sup> OCCAR, "OCCAR Corporate Strategy", *Strategy Paper SP14*, Section 3, June 2006, [http://www.occar-ea.org/media/raw/SP14\\_OCCAR\\_Corporate\\_Strategy\\_issue1\\_041006.pdf](http://www.occar-ea.org/media/raw/SP14_OCCAR_Corporate_Strategy_issue1_041006.pdf).

<sup>418</sup> OCCAR Management Procedure 3, "Corporate Management", Section 5.

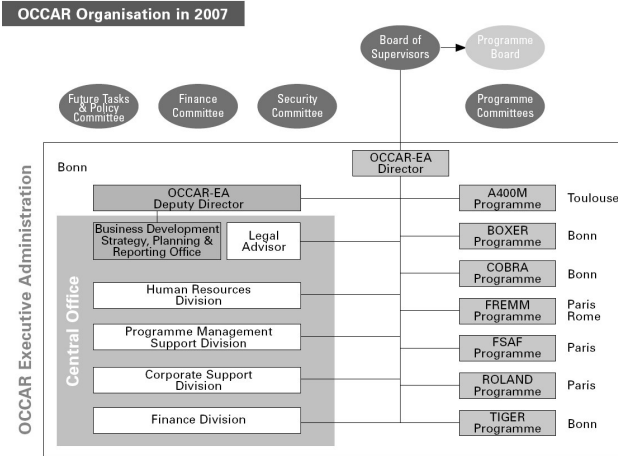


Figure 7: OCCAR Organisation in 2007. Source: OCCAR Business Plan 2007. <http://www.occar-ea.org / view.php?nid=162>

OCCAR is composed of a Board of Supervisors (BoS), and an Executive Administration(EA). As stated in capital letters in article 10 of the Convention, “the BOS shall be the highest decision-making level within OCCAR”,<sup>419</sup> which basically means that national states are in control of all OCCAR most relevant decisions. Each of the Member States has a vote in the BoS and participate in it through his Defence Minister or a delegate. Therefore the BoS is the mirror of the states participating in OCCAR and not the structure charged of managing programmes, which is the Executive Administration. The BoS has a chairperson which is a member of the states on a rotation basis. Among the competences that should without exceptions be undertaken by the BoS are recommendations for the admission of new Member States; assignment of a programme to OCCAR; establishment or dissolution of Committees composed of Members States’ representatives and appointment of auditors. The Executive Administration is in charge of the implementation of BoS decisions. The EA is composed of a Central Office(CO) and Programme Divisions(PDs). The Central Office, set in Bonn, embodies a Directorate (a Director, its Deputy and support staff) and Divisions responsible for future tasks, acquisitions, contracts and finance matters and administration (Art 20 of the Convention, Chapter V). Programme Divisions, in charge of the management of the programmes, should have as their reference benchmarks performance,

<sup>419</sup> OCCAR Convention, Chapter IV.

risk management, value engineering and cost containment, as stated by BoS regulations(Art. 20, b of the Convention, Chapter V). While being at the head of the Executive Administration, OCCAR-EA Director is also the main interface between all the management processes and national States: among other functions he is in charge of approving Management Plans before submitting them to the Programme Committees (PCs), reporting relevant issues to the Programme Committee, signing OCCAR contracts after approval of the Programme Decision, monitoring and assisting the work of the Programme Divisions.<sup>420</sup>

Appropriate Committees- Programme Committees- can be assigned some of the functions of the BoS. Specific arrangements handle the complicate issue of the use and protection of information: on the one hand, and in order to conclude Programme Contracts, Member States should have access to information regarding suppliers through the EA, and on the other hand the Executive Administration needs to consult the necessary information from contractors and from governments in order to better manage the programme. It is not possible for non-Member States participating in an OCCAR Programme to use or deliver OCCAR information if not stated otherwise.<sup>421</sup> OCCAR has to protect all information assigned to it by Governments or contractors and cannot disclose them. This highlights the function of “interface” between States and industry that OCCAR plays.

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<sup>420</sup> OCCAR, “Principal Programme Management Procedure”, OCCAR Management Procedure 1, Section 4.2, July 2006, [http:// www.occar-ea.org/media/raw/OMP1\\_Programme\\_Management\\_issue2\\_010706.pdf](http://www.occar-ea.org/media/raw/OMP1_Programme_Management_issue2_010706.pdf)

<sup>421</sup> OCCAR, « Legal Aspects », OCCAR Management Procedure 4, Section 4, July 2006, [http:// www.occar-ea.org /media /raw / OMP\\_4\\_Legal\\_Issues\\_issue3\\_010706. pdf .](http://www.occar-ea.org/media/raw/OMP_4_Legal_Issues_issue3_010706.pdf)



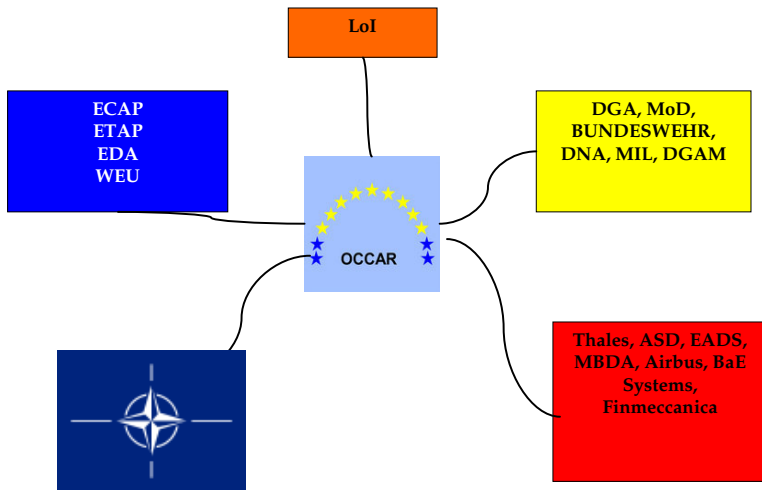


Figure 8. ‘OCCAR in Europe’. The Place of OCCAR in the European Defence Procurement Debate. Source: OCCAR presentation to EDA, Brussels 2006. This figure illustrates OCCAR’s relations and place within the broader European procurement Environment and the actors involved in it: the first stage of relations resides at the European Union level, with structures such as the European Capabilities Action Plan (ECAP), the Environmental Technology Action Plan (ETAP), the European Defence Agency (EDA), the Western European Union (WEU). Outside of the European level there is another important agreement providing measures to facilitate the restructuring of the European Defence Industrial landscape (LoI Framework Agreement). As said before OCCAR performs the tasks assigned to it by the Member States through their Ministries of Defence that are therefore its customers. OCCAR’s interface with European industries is of the paramount importance also because of its objective to speed up the creation of prime contractors. Finally the Organization deals with other procurement agencies, such as NAMSA-NATO Maintenance and Supply Agency within the NATO Context.

OCCAR rules and procedures for procurement, states the Convention, are to be approved by the BoS and can be proposed either by the Director of the Executive Administration or by the Member States and should apply to all contracts awarded by OCCAR(Art. 23,1 of the Convention, Chapter VI). Article 24 specifies that “contracts and sub-contracts shall generally be awarded after competitive tendering”.<sup>422</sup> Of course, “generally” refers to the special provisions agreed in Chapter II

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<sup>422</sup> OCCAR Convention, Art. 24.

and underlining the principle of global balance, and in the “transitional arrangements” set in Annex III (see below).

Having a set of rules and regulations defining the way in which procurement has to be managed and applicable to all programme decisions makes this organization unique in the defence field, “the added value of OCCAR is a set of rules, agreements and common procedures and the ability to fulfil its daily tasks... the most relevant economies do not derive from functioning costs but from procurement procedures which are better and more rapid”.<sup>423</sup> Therefore, it is its value as a procurement agency able to bypass the problems arising when trying to coordinate national divergent procedures that will encourage states to assign it more funds and more programmes in the future.

Uniformity of contracting procedures, rules and regulations is of course a huge step forward in an heterogeneous European defence frame, “OCCAR is to be seen as a tangible, practical and legally constituted tool by which different national procurement rules and regulations are harmonised for the benefit of all... OCCAR can bring an added value to a wider European armament policy, and can be expected to become a significant tool for facilitating the consolidation process of the enlarged EU armament community through the management of joint multinational programmes in a better and most-effective way”.<sup>424</sup> General Cardinali, at the head of OCCAR-EA, affirms that by pooling together administrative staff and infrastructure resources it is possible to achieve improved and more efficient results in economic terms; also, the presence of a Central Office as well as of established and not changing procedures spurs advantages that national or *ad hoc* agencies are not able to get.<sup>425</sup> Collaboration, explains General Cardinali, is in principle more costly because a huge coordination work is required; nevertheless, if costs are shared, then it ends up being more convenient: savings obtained by integrating programmes in OCCAR compared to *ad hoc* solutions amount to 20-30%.<sup>426</sup> While this is possible with a small number of and a similar power among actors doubts persist on the

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<sup>423</sup> Jean-Paul Béchat, 2001, p. 17. In most of the cases *ad hoc* agencies, created for a single programme, are “NATO based”, such as for example NAHEMA (NATO Helicopter Development and Design, Logistic Management Agency).

<sup>424</sup> Admiral Giampaolo di Paola, “Development of the Armament Policy in Europe”, *Military Technology*, Special Issue, 2004, p. 19.

<sup>425</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 30, 2005a.

<sup>426</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

probability of a likely outcome among an enlarged setting. In fact, during the initial steps of OCCAR's creation, some experts attributed just to the small partnership its potential success, "as a four-nation treaty, OCCAR will arguably be able to do some serious work-while a pan-WEU structure, with all the usual legal trappings of compulsory unanimous decisions and the like, would have been but yet another useless Eurocratic bandwagon".<sup>427</sup> Therefore, analysing its success, its achievements and the added value it brought about compared to *ad hoc* or national procurement strategies and arrangements is paramount for future cooperative programmes, "OCCAR is a unique opportunity to improve the management of international programmes, and it is our intention to become the preferred choice for management of new armaments programmes, and to be a model example of European integration".<sup>428</sup>

For OCCAR to be chosen as procurement agency, optimal performances in terms of costs, timing delivery and reduction of management risks should be reached, "our policy objective is to identify correctly the risks to the achievement of our objectives and to ensure that control strategies are in place to manage them. The strategy for this will be to apply a continuous cycle of identifying, assessing, managing and reporting risks, while also reviewing the control strategies in place to deal with them".<sup>429</sup> In 2006, and in order to accomplish these tasks, a series of Management Procedures (OMPs)--together with precise performance indicators- have been approved by the BoS and established: they clarify the practices, the tools and the instructions to be followed and needed to render the organization work easier, and "to prevent from re-inventing the wheel every time a new programme is incorporated".<sup>430</sup> Moreover, the purpose of a review of the structures and regulations was to facilitate the administrative path, "to reduce the number and details of procedures that require BoS approval, to clarify the role of Member States and Participating States

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<sup>427</sup> Ezio Bonsignore, "Too Much of a Good Thing?", *Military Technology* 10, 1998, p. 4.

<sup>428</sup> OCCAR Management Procedure 1, "Principal Programme Management Procedure".

<sup>429</sup> OCCAR, "Programme Management Rules and Policies", Addendum 1 to OCCAR Management Procedure 1, July 2006, p. 2. [http:// www.occar-  
ea.org/media/raw/Addendum1\\_OMP1\\_issue2\\_010706.pdf](http://www.occar-<br/>ea.org/media/raw/Addendum1_OMP1_issue2_010706.pdf) .

<sup>430</sup> "German Army Weapon Systems Managed by OCCAR", *Military Technology*, Special Issue, 2002, p. 55.

in OCCAR Business and improve the effectiveness of the decision process within OCCAR”.<sup>431</sup>

Year 2006 has therefore been remarkable for OCCAR’ s management tasks. The new procedures apply to all programmes integrated in OCCAR except the case in which the BoS through the Programme Decision decides otherwise. Every decision related to the programme should be taken at unanimity. A Programme Committee, composed of representatives of the Participating States, is created to monitor and take decisions on the achievement of “High Level Objectives”(performance, time and cost).<sup>432</sup> Member States have a decision power on all OCCAR-EA decisions regarding programmes, “national States, often, are afraid of loosing the power to control and manage them in the likely direction when engaging in cooperation programmes; instead, OCCAR assures that state is always able to monitor the programme”.<sup>433</sup>

Director Cardinali points out that even if a state is pressured by external factors and knows that by adhering to a similar organization may loose some of its control on the industrial work-share there are security and technology assurances it wants to keep, and OCCAR answers this concern. National states want to keep their prerogatives and cooperation depends on their willingness to coordinate actions, “if cooperation is rewarding then States are going to pursue it, otherwise they are not”.<sup>434</sup> This is the major difference between an inter-governmental and a supranational process: in the latter one, state risk loosing the ability to exercise power in order to foster or preserve their interests. Instead, an inter-governmental structure receives its power

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<sup>431</sup> OCCAR Business Plan 2004, p. 10.

<sup>432</sup> High Level Objectives (HLOs) are composed of three conditions referring to time, performance and cost. Time encompasses the deadline for ascertain the qualification of a system, develop system studies, deliver the first and following systems. Performance depends on its air, land or sea nature and the requirements needed. Cost objectives are aimed at managing the system at the lowest cost-benefit trade-off. See OCCAR, Programme Decision Approved Model Text”, Annex A to OCCAR Management Procedure, Section 3, November 2007. [http://www.occar-ea.org/media/raw/OMP2\\_A\\_Programme\\_Decision\\_Approved\\_Model\\_Text\\_Issue4\\_121107.pdf](http://www.occar-ea.org/media/raw/OMP2_A_Programme_Decision_Approved_Model_Text_Issue4_121107.pdf). It is necessary to underline that the “better value for money” formula means employing the resources available with a view to the best rewarding solution.

<sup>433</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 30, 2005a.

<sup>434</sup> *Ibid.*

directly from its members. A supranational structure is both the aggregation of parties and something more, a cessation of a small part of sovereignty and with it of the power to decide freely on a specific field. While it is assessed that OCCAR is an intergovernmental structure reflecting its members positions, it is also clear that it is something more of that, for all the reasons abovementioned and the ones that will be presented below. First of all, OCCAR is structurally different from pure *ad hoc* agencies both because it has a precise procurement model that mirrors none of the internal procurement procedures of its Member States, and therefore that is equally agreed upon by all States. Second, every national state has conceded something for the sake of OCCAR' s creation, because coordination always implies an accommodation among actors, and an institutionalized coordination among similarly powerful actors requires the delineation of common principles, missions, strategic aims and so on.

Programmes headquarters are based in different countries according to requests made by states; even these decisions, therefore, represents a bargaining activity among them. For example FREMM-the Multi-Mission Frigates programme among France and Italy- has its official headquarter in France and a detached office in Rome. One of the criteria to decide the programme headquarter is to locate it in the nearby of its production site: A400M Division is in Toulouse, near to Airbus production location. ROLAND and FSAF are based in Paris while TIGER; COBRA and BOXER in Bonn. The UK has no headquarter mainly because its participation in OCCAR is not that relevant in terms of programmes.

Figure 9. OCCAR Headquarters. Source: OCCAR Presentation to CNAD, NATO HQ, Richard Burley-Commercial Editor, October 2006- (see p. 292)

As for the selection of staff, recruitment is based on merit standards but the Director has the responsibility to assure that a certain balance exists among the staff of Member Nations.<sup>435</sup>

OCCAR' s membership status can be obtained by participating in a significant programme in which at least one other OCCAR' s state takes part. Also, the state applying for membership has to endorse the

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<sup>435</sup> OCCAR, "Staff Selection", OCCAR Management Procedure 9, July (2006): Art.4.7[http://www.occare.org/media/rawOMP9\\_Staff\\_Selection\\_issue2\\_010706.pdf](http://www.occare.org/media/rawOMP9_Staff_Selection_issue2_010706.pdf) .

Convention, and therefore OCCAR principles, rules, regulations and policies, and most important of all, the number of votes that Member States decide to assign it. On the one hand it seems that a small number of participants has created a good environment for cooperation; for example, among the worse examples of cooperative settings General Cardinali remembers some NATO agencies, such as the AGS (air-ground-surveillance) one, where all NATO members participated with 70 industries and the *juste retour* principle was applied. On the other hand, it seems that sometimes coordination is difficult notwithstanding a limited membership because opt-out and compensation clauses, while facilitating cooperation, hamper important and generalized decisions or dampen relevant step forward while preserving national control over the programmes, “intergovernmental initiatives in a reduced form are not necessarily easier than the others. Its (OCCAR) creation was justified by the fact that four states the interests of which were similar could have rapidly created an operative structure. Certain issues as the way in which to envisage the global balance seem to be characterised by different approaches from Participant States. Moreover the decision to have a decentralized management of the programmes shows that suspicions persist among Members”.<sup>436</sup>

Since OCCAR’s creation, states showing an interest in the organization have been the Netherlands, Spain, Belgium, Sweden, Switzerland and Finland. Belgium and Spain joined the organization respectively in 2003 and 2005; the Netherlands participates in the BOXER Programme with Germany. OCCAR has been alleged to represent an “exclusive club”, encompassing the most important producers and consumers of weapon systems in the European context, and therefore preventing the access of less powerful defence producers. On this point of view Belgium acceptance into the Organization looked like a promising trend and downplayed part of the critics arisen.

After Belgium membership, in 2003, former Director Klaus von Sperber stressed that this “testifies to the vitality of the organization and support its ambitions to be the first choice in Europe for the management of collaborative armaments programmes”.<sup>437</sup> While Founding Members accepted Belgium’s candidacy, they pretended that it was conferred less votes than they had (5 voting rights instead of 10).

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<sup>436</sup> Sandra Mezzadri, «L’ Overture des Marchés de la Défense: Enjeux et Modalités », *Publications Occasionelles*, Institute of Security Studies, Paris, February 2000, p. 26.

<sup>437</sup> Klaus von Sperber, 2003.

For Spain, that joined the organization in 2005, the first proposal by Founding Members was for 5 votes, as for Belgium, but the nation pretended and obtained (tanks also to Italy' s strong support) that it had more votes than Belgium (8) considering itself a more powerful state than Belgium was. As a counterpart to this concession the Founding Members required that Spain participated in two Programmes; for this reason Spain has waited to enter OCCAR until the integration of the TIGER helicopter. This fact confirmed the engagement of Spain in two considerable programmes (TIGER and A400M) which in turn justified the need for an increased amount of votes.

This piece of evidence shows also that Spain, even if not at the level of the other states, is still an important constituent of the European defence scenario. The same can be said for Sweden, whose electronic industry is paramount for new technologies, "states able to participate to the programmes, which have a defence industry such as Spain and Sweden, are the likely candidates to a potential adhesion."<sup>438</sup> Nevertheless, Sweden did not decide to apply. Also because of this, asserting that OCCAR is the embryonic structure of a would be widespread European Procurement Agency does not match with reality. The label of "European agency" applied to OCCAR should be interpreted in a very narrow sense, and should take into consideration not only states' interest to participate but also to the power to do that. It is difficult to envision an efficient defence structure which encompasses states that do not have the capability to contribute significantly or to compensate for other states' shortfalls. Because of the lack of these capabilities, small states are always likely to buy weapon-systems off-the-shelf, a practice that in a sense violates the 'European preference' precisely stated in OCCAR Convention.

That said, what can explain Belgium presence in OCCAR? As stated by Major General Guido Andries, former Belgian National Armament Director (NAD), Belgium is a small country with small industries and limited defence budgets,<sup>439</sup> but OCCAR helps integration among the most powerful states , "through the participation in OCCAR it becomes easier to keep in touch with the initiatives taken within the framework

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<sup>438</sup> Foreign Affairs Committee, "Création de l'Organisation Conjointe de Coopération en Matière d'Armement (OCCAR), *Compte Rendu n° 15*, Assemblée Nationale, December 15, 1999, [http:// www.assemblee-nationale.fr/11//cr-cafe/99-00/c990015.asp](http://www.assemblee-nationale.fr/11//cr-cafe/99-00/c990015.asp)

<sup>439</sup> Major General Guido Andries, 2004, p. 14.

of European integration. The membership also provides the opportunity to call the attention of the larger European partners to the sensitive issues smaller European partners are dealing with".<sup>440</sup> Colonel Antonio Padula affirms that the acceptance of Belgium is a clear proof of the fact that OCCAR addresses not only to powerful states (with industrial capabilities) but also to smaller states who, as Belgium did, engaged actively in cooperative programmes and in the elaboration of a common defence.<sup>441</sup>

Of course, Belgium does not enjoy the same military potential as the Founding Members do, but it has a vibrant capacity in high-quality (sub)systems and components and therefore it specialises in niche markets at the sub-contract level. According to OCCAR rules and regulations, Belgium can potentially participate as a sub-contractor on programmes in which it is not directly involved, while OCCAR can take advantage of Belgium excellence in niche markets. That said, it is not clear whether the same history can be replied with other "small states"; as Brigadier General Peter Kuhn of the German Army explains, Germany –but the same is true for other powerful states– seeks cooperation also with smaller nations, but "prerequisite for balanced cooperation with fair work-share is that partners of common projects do have sufficient technical know-how on the industrial side and also do have development and production capabilities. At least in partial areas, which need not to be built up first".<sup>442</sup> The fact that Belgium had a previous capacity has been determinant for its acceptance and this will be the decisive card for other European nations willing to apply for membership.

As said, OCCAR Member States are also the most powerful arms producers and purchasers of the European context and this reasonably implies that they want or expect to have a decisive say in defence matters over other less powerful States: Europe of the armament is still 'Europe at six' and this fact should always be taken into consideration when assessing the probability of cooperation. This latter arises when it is rewarding, and it is rewarding when there is room for reciprocity or compensations bargaining among similarly powerful states for which

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<sup>440</sup> *Ibid.*

<sup>441</sup> Colonel Antonio Padula, *Interview*, Italian Ministry of Defence, Rome, December 5, 2007.

<sup>442</sup> Brigadier General Peter Kuhn, « Germany's International Cooperation for Army Equipment and Technology », *Military Technology*, Special Issue, 2004, p. 44.



unilateral actions are not available. This may explain why, for example, Founding Members do not seem to be eager to accept new members. A small amount of Members is a sound number to work with both at the decision-making level and to make work some of the agreement reached within OCCAR. Global balance, for example, which foresees a calculation of industrial return spread out on more programmes in more years, is more easily applicable with a restricted number of actors. In any case, the entrance of a new Member State will have to be accepted by the Founding States, and these latter would set the conditions and ask for precise and sometimes hard decisions, "it would be time-consuming and complex for every member-state to join OCCAR, as the existing members have to set the terms for new members".<sup>443</sup> This practically indicates that Founding Members are able to state the rules of the game and of course to change the payoff matrix: for example, while cooperation would be a preferred outcomes for some states their cost-benefit calculus may change once they are put in front of a modified cooperation context. It is clear therefore, that the mere fact of participating in the organization adds, to the power conferred by the possession of the resource, the power of setting the cooperative stage and that of changing the actions of non-Members States. To date, however, no state's candidacy has been submitted. State-of-the art seems to invite states to participate in programmes within OCCAR and eventually ask for entry, so as to perceive the costs that participation may imply. Of course more Members risk overburdening negotiations, re-proposing all the costs that a cooperative structure may incur in. While states as Sweden, Poland and Finland are participating in ESSOR programme-a programme under consideration for integration in OCCAR- this latter is far too small to justify states' entry within OCCAR.

Member States provide funds to OCCAR's administrative and operational plans through an "annual budget", prepared by the Executive Administration, that specifies the planned administrative and operational expenditures and the sources of funding. The plan should be approved by the BoS and should be in accordance with the financial rules and regulations (Art 34-35 of the Convention). By calculating the ratio of administrative and operational costs it is possible to assess that the overhead is much lower than that existing within national states, confirming once again OCCAR's good

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<sup>443</sup> Daniel Keohane, 2002, p. 27.

performances in terms of efficiency.<sup>444</sup> Central Office funds are provided by Member States according to their voting rights in the BoS. Programme Division costs as well as programme operational costs(those related to contracting)are shared by States participating in a Programme according to the Programme Decision.<sup>445</sup> States' financial contribution depends on the programme they participate in, on voting rights and on off-takes (number of systems ordered for each programme). France is the biggest contributor to OCCAR' s budget. At the creation of the Agency Italy and the United Kingdom used to pay half the contribution of France and Germany for the administrative budget; this latter was re-balanced among Member States in 2001.

All of the Founding Members dispose of ten votes, while, as said before, new Members will have less voting rights, underlining that the organization assures the interests of the existing members and that inclusion in the club implies a lower decision power: of course the four states want to preserve their power position. An equal amount of votes among them and a superior one than other Participating States could also be interpreted as a reasonable compensation for the work performed to create OCCAR in the first hand.<sup>446</sup>

All decisions regarding the Convention, the operative and financial impact have to be taken unanimously. Among the BoS decision making processes a reinforced qualified majority(there should not be ten votes against) is required for admission of new Member States, approval of OCCAR rules and regulations, organization of OCCAR-EA and appointment of the Director of the Executive Administration. What this means, basically, is that a Founding State(but not the others) has a veto power on all these decisions. A simple majority is enough to create or dissolve Committees, while for all other issues for which a specific decision-making procedure does not exist, and therefore where there can be a dispute between states regarding the existence or the specific provision to consider, unanimity is required.<sup>447</sup> As for the programmes, Member States recognize that unanimity goes against an effective and rapid decision-making process needed to respect the time-schedules

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<sup>444</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 30, 2005a.

<sup>445</sup> OCCAR, "Financial Rule", OCCAR Management Procedure 10, Section 3.9., November 2006, [http://www.occar-ea.org/media/raw/OMP10\\_Financial\\_Rules\\_issue1\\_080906.pdf](http://www.occar-ea.org/media/raw/OMP10_Financial_Rules_issue1_080906.pdf).

<sup>446</sup> Colonel Antonio Padula, *Interview*, Italian Ministry of Defence, Rome, December 5, 2007.

<sup>447</sup> OCCAR Convention, Annex IV.

agreed. Since delays mean added costs it is advisable to envision different kind of decision-making procedures for different types of issues. This argument is sustained by the Member States that from time to time do suggest different decision-making solutions but which have not been able to come to a definitive agreement.<sup>448</sup> Of course, decisions concerning a single programme will be taken only by the representatives of the Member States engaged in the Programme(Article 15, 2 of the Convention). The possibility to take some decisions on a majority base has been considered very important and innovative in this realm, “article 18 makes OCCAR the first organization competent in armaments which does not foresee only the unanimity procedure”.<sup>449</sup>

The possibility to participate in OCCAR programmes without being Members of the organization is contemplated by Member States in Article 38 of the Convention, which foresees the previous approval of Member States of the arrangements to be reached. Of course, non-Member States which aim at participating in a programme should conform with and accept all OCCAR’ s rules, regulations and principles.<sup>450</sup> Non-Member States will have also the same rights in the decision-making process and will send representatives for the Programme Board, Programme Committee and the Programme Working Group. Instead, the participation of non-Member States is limited to the programmes: they cannot pretend to have seats in the Central Office in Bonn even if they will have to contribute to the Central Office budget(operational and administrative), the idea being that they need to make up for spared costs, “one of the benefits of OCCAR managed programmes is the reduction in size of the programme offices through the transfer of common programme elements (such as budgeting, accounting, contracting, human resources

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<sup>448</sup> On the overhaul of decision-making procedures concerning a programme see the suggestions proposed in Section 4 of OCCAR Management Procedures, “Programme Decision Approved Model Text”, Annex A to OMP 2, Section 4.

<sup>449</sup> Commission des Affaires étrangères, “Création de l’Organisation Conjointe de Coopération en Matière d’Armement (OCCAR)”, *Compte Rendu n° 15*, Assemblée nationale, Mercredi 15 Décembre 1999, p. 2, <http://www.assemblee-nationale.fr/11//cr-cafe/99-00/c990015.asp>

<sup>450</sup> OCCAR, “Participation of non-Member States in OCCAR Managed Programmes”, Annex D to OCCAR Management Procedure 2, General Principles, November 2006, [http://www.occar-ea.org/media/raw/OMP2\\_D\\_Participation\\_of\\_non\\_Member\\_States\\_Issue4\\_121107.pdf](http://www.occar-ea.org/media/raw/OMP2_D_Participation_of_non_Member_States_Issue4_121107.pdf).

and IT facilities) to the OCCAR-EA Central Office".<sup>451</sup> Therefore OCCAR-EA grants a service to States participating in the programme. The participation in programmes by non-Member States has come about in the BOXER Programme and in the A400M one. OCCAR foresees also the possibility of conceding "observer status" to non-participating Members in programmes managed by the organization. In 2006, underlining the interest of non-European States towards OCCAR initiatives, it was stressed that Turkey wanted to join the In Service-phase of the COBRA Programme and that South Africa and Malaysia would acquire observer status in the A400M Programme.<sup>452</sup> The grant of "observer status" should be approved by the BoS by unanimity. Every request will be considered on a case-by-case basis; more probability does exist to 'observe' a programme if there is an intention by the same to eventually join it, "all States granted observer status in an OCCAR managed programme shall be required to state formally their clear interest in future participation in the programme or to purchase off-the-shelf the system developed under the programme and to sign a nondisclosure agreement".<sup>453</sup>

In case of OCCAR dissolution, Member States should previously find procedures to manage the dissolution without damaging third parties and contractual partners, and to find arrangements to share among them OCCAR rights and responsibilities (Art. 55 of the Convention). Instead, a State deciding to leave OCCAR has to consider all the consequences arising from its withdrawal (Art. 56, 1,2,3 of the Convention). Leaving a programme by a state means first of all consultations with all other participating states on the consequences of its withdrawal, eventually notification in advance of its decision to leave the Programme, respect of all its duties until its exit and "be solely responsible for any additional costs, damage, penalty or liability"<sup>454</sup> produced to the programme. This applies also in the case of a state changing its requirements for a programme or the number of systems planned to purchase. In 2005 Business Plan the Director informed of the withdrawal of the United Kingdom from the BOXER

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<sup>451</sup> *Ibid.*, Finance.

<sup>452</sup> OCCAR proposed also to provide support through an administrative arrangement to the Nations acquiring directly the A400M programme.

<sup>453</sup> OCCAR, "Observer Status", Part I, Annex A of OCCAR Management Procedure 3, July 2006, Paragraphs 3-6. [http:// www.occar-  
ea.org/media/raw/OMP3\\_A\\_Observer\\_Status\\_issue2\\_010706.pdf](http://www.occar-<br/>ea.org/media/raw/OMP3_A_Observer_Status_issue2_010706.pdf).

<sup>454</sup> OCCAR, "Programme Decision Approved Model Text", Annex A to OMP 2, Section 18.

Programme and the necessity to arrange this latter in a bilateral way;<sup>455</sup> while this event has requested a deep overhaul of the programme OCCAR has been able to deal with it properly.

Figure 10: Programme Contributions in Millions of Euros. Source: General Nazzareno Cardinali to the Defence Commission of the Italian Senate, Rome 29 May 2007. (see p. 293)

Figure 11: Staff Contribution. Source: General Nazzareno Cardinali to the Defence Commission of the Italian Senate, Rome 29 May 2007. (see p. 296)

## 4.7 OCCAR procurement procedures

After having presented the motivations behind OCCAR's creation and structure it is time to analyse its procurement procedures so as to perceive the difference that the organization marks in comparison to other procurement agencies. As it will be seen, OCCAR is inspired and driven by some fundamental guidelines, such as the 'European preference' or the 'global balance' principle: taken together they show the peculiar features of the organization and recall the economic and strategic objectives aforementioned.

One of the most interesting ingredients in OCCAR is the so called "European preference" of defence systems, aimed at improving both the European industrial base and the European defence might. Article 6 of Chapter II of the Convention states that Member States should give preference in their procurement decisions to equipment in which they participated and which have been developed through OCCAR whenever these equipments satisfy their requirement. States who engage in the development and production of military equipments by committing huge amount of money are aimed at acquiring those systems: this has the objective of favouring an autonomous European base. On this point of view Hayward maintains that France did not compel to introduce a reciprocity clause in OCCAR Convention, "but officials maintained that weapons acquisition decisions would have to reflect 'clear political choices'...there is apparently a strong feeling on the part of French officials that all JACS(Joint Armament Cooperation Structure, i.e., OCCAR) sponsored programmes should be acquired by the members".<sup>456</sup> It is clear that the United Kingdom was not perfectly

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<sup>455</sup> General Nazzareno Cardinali, « Foreword », OCCAR Business Plan 2005, p. 5.

<sup>456</sup> Keith Hayward, 1997, p. 15.

comfortable with the “European preference” clause, but, as aforementioned, it was considered wiser to participate rather than to keep out of this structure.

Perhaps, the most important principle set in Baden-Baden was the abandonment of the *juste retour* practice: this principle is to-date what renders OCCAR different from other procurement agencies. In Chapters II of the Convention, Article 5 states that “to enable a strengthening of the competitiveness of European Defence Technological and Industrial Base, the Member States renounce, in their cooperation, the analytical calculation of industrial *juste retour* on a programme-by-programme basis, and replace it by the pursuit of an overall multi-programme/multi-year balance”; in fact this practice was called ‘global balance’. ‘Global balance’ would create more freedom in the selection of suppliers and thus more cost/effective solutions, “it has not been easy, for OCCAR member nations, to give up the ‘cost-share-work/share principle’, which has been the old traditional rule for multinational programmes. However, experience has shown that too much emphasis on strict and rigid work-share arrangements prevents reaping the full benefits of competition”<sup>457</sup>.

France was the Nation that more strongly pressed for the introduction of the global balance principle among OCCAR rules; this principle in no way means pure competition among Member States: it promotes cooperation but assuring a return in the long run. It is not difficult to grasp France’s insistence behind this request: facing huge industrial and budget problems and participating in almost all OCCAR programmes, France would have the guarantee that sounder economic performance would be reached while not losing its rewards. Moreover, by being one of the most relevant defence producers, it is also highly competitive; this grants the opportunity to get a substantial work-share in every programme it participates in. Finally, competition at the sub-contractor level would have promoted innovation and improved performances propping up the European Industrial Base. Clearly, global balance does not have the same attractiveness for a nation that does not participate so much to OCCAR programmes. What changes substantially is the time-span, the immediacy of the *juste-retour* practice against a longer run view: if a state is not that eager to engage in or to integrate programmes in OCCAR it is clear it does not put much emphasis on this principle.

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<sup>457</sup> Admiral Giampaolo di Paola, 2004, p. 19.

Knowing that a balanced return will in any case be reached in the future, suppliers will focus more on proposing the best solutions given that the work-sharing for each country is not assigned beforehand rather than “aiming to achieve work-share down to the last Euro, a behaviour that has bedevilled other major collaborative Programmes”.<sup>458</sup> Also, global balance practice would promote industrial and technological complementarities necessary in the short and long-run to work together, sustain each other and deepen the European defence stance (Art. 5 of the Convention), “if *juste retour* principle permits industries to develop themselves it poses some limits on concurrence and determine an impressive and counter-productive fragmentation of work”.<sup>459</sup> The objective, as General Cardinali points out, is that of pushing on the competitiveness of the European defence industry and hampering its fragmentation.<sup>460</sup>

Nevertheless, Annex III of the Convention specifies some important limitations to the global balance principle and with this to a concrete step towards a more integrated defence. The first limitation to this principle was its not total applicability during the very beginning of the organization’s functioning, “contracts shall, in principle, be awarded more on the basis of competitiveness rather than on the financial contributions made by each Member States. However...during the three years following entry into force of this Convention:

- if the industry of a Member State has received a volume of orders smaller than 66% of its financial contribution, either concerning a programme, a certain phase or a certain sub-assembly of a programme(as far as complexity of a weapon system justifies that this system is divided beforehand into sub-assemblies),
- If a global imbalance of more than 4% is identified in relation to all programmes,

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<sup>458</sup> OCCAR, “Contract Placement Procedure”, OCCAR Management Procedure 5, July 2007, [http://www.occар-ea.org/media/raw/OMP5\\_Contract\\_Placement\\_issue2\\_010706.pdf](http://www.occар-ea.org/media/raw/OMP5_Contract_Placement_issue2_010706.pdf).

<sup>459</sup> Commission de la Défense Nationale et des Forces Armées, Audition du Général Nazzareno Cardinali, Directeur de l’Organisation Conjointe de Coopération en matière d’Armement, *Compte Rendu n°41*, July 21, 2005. <http://www.assemblee-nationale.fr/12/cr-cdef/04-05/c0405041.asp#TopOfPage>.

<sup>460</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

“appropriate actions will be taken by the BoS in order to restore the balance”.<sup>461</sup> The vagueness of this provision was probably necessary to speed up the creation of the Agency; the flexibility assured should have been enough to make states trust this organization. It is probable that too a narrow and specific provision would have hampered the achievement of an initial and fundamental consensus.

The specification of the annex III was a compromise solution between the states who favoured a more competitive environment from the beginning and those that instead wanted to preserve their prerogatives and monitor the development and the likely consequences of such a provision. Member States wanted to be sure that global balance would not apply to Programmes just integrated in OCCAR or in process of being integrated in the first years.

The transitional arrangements have turned in the application of the global balance principle, even if some exemptions exist for the functioning of this practice. Competition is therefore considered of the utmost importance within OCCAR, “the use of competition is the cornerstone of OCCAR Procurement Policy because it provides the greatest leverage on Suppliers to obtain the best value for money and reasonable transfer of risk. The potential for competition in each programme must always be given careful and early consideration by OCCAR-EA”.<sup>462</sup> Therefore, contracts and sub-contracts shall in principle be awarded competitively. The aforementioned Art 24 of the Convention, stating that for defence and security requirements or to improve European industrial and technological base competition may be limited to the structures of a Member State participating in the programme concerned, is a constraint of the competition rule which should be at the basis of the Organization.<sup>463</sup> In principle, even a Member State not participating in a programme can potentially take part in its productive process if its offer is competitive; nevertheless for ‘security reasons’ competition may be limited to the industries of the Participating States. Security reasons are intended to be very broad and appear in all programmes; they can go from particular components embodied in a system to reasons of security of supply. Alas, this

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<sup>461</sup> OCCAR Convention, ANNEX III.

<sup>462</sup> OCCAR Management Procedure 5, “Contract Placement Procedure”.

<sup>463</sup> Aside from Article 24 the Convention states also that “companies not invited to bid, and companies whose bid was not successful shall, at their request, be given the reasons for their exclusion or for the rejection of their bid” (Art. 30).



procedure will be decided time by time in the Programme Decision by Participating States.

There are also some cases in which prime contractors are not appointed competitively; in this case, the procurement process should be treated as 'non-competitive'. In order to make up for this the maximum of visibility should be achieved at the sub-contractor level.

*Juste retour* practice was the scapegoat through which in the past cooperation has been reached among states; while cooperation was necessary on some occasions the return received had to make up for the orders and the financial contribution faced by the States, otherwise the incentive for cooperation were lost. What today makes the difference is that coordination is not only seen as a practice to spur the national industry but also a tool for answering economic, industrial and strategic imperatives. As General Cardinali points out, "normally this principle (*juste retour*) has been used to increase the own industrial might instead of exploiting a yet existing capacity, and this has inevitably implied huge costs".<sup>464</sup> In this sense, a more competitive setting is needed and achievable with the global balance provision, even if at some point states should get what they provide for the development of a programme. For example, ordering a certain amount of weapon systems and therefore committing financial resources to that objective is the *sine qua non* condition for carrying forward a programme. Because of that, and because of the peculiarities of the weapons field, a state need to be entitled of sound (balanced) returns in a defined time-span.

The principle of global balance is therefore more promising than that of *juste-retour*, but it re-affirms that a "balance" should in any case be reached and should guide and lead the work allocation: as General Cardinali maintains, "it is a competition in a controlled environment".<sup>465</sup> According to the Director, global balance is a form of "compensation" thought to meet the exigencies of the Director of Armaments that would not tolerate a wild competition and therefore would put in danger cooperative efforts. The most important achievement on this ground has to be considered the 'commercial

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<sup>464</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 30, 2005a.

<sup>465</sup> Nazzareno Cardinali, "Indagine Conoscitiva sullo stato attuale e sulle prospettive dell'industria della difesa e sulla cooperazione in materia di armamenti", *Resoconto Stenografico*, 68° Session, 4th Permanent Defence Committee, Italian Senate, May 29, 2007d.

approach' agreed on the A400m aircraft (discussed below), "in the A400M programme, even if states concerns are yet strong, the commercial approach determines that the balance of work-sharing relation to the number of orders is but an objective and in no way an obligation of the contractor. For new programmes this principle will be for sure strongly applied".<sup>466</sup>

It goes without saying that new programmes should be integrated in OCCAR in order to guarantee competition in the application of the global-balance principle. In fact, a calculation based upon more programmes and more years means that a 'controlled competition' today is possible through the assurance of returns in the future. This is an issue much more for smaller states as Belgium rather than more powerful ones, "the abolition of the proportional participation per projects implies for Belgium the risk that in the short-term a global balance can not be achieved given that the Belgian defence industry is far smaller than that of the larger OCCAR countries. This risk will be decreased as more programmes are managed by OCCAR".<sup>467</sup> In fact, "for the smaller European states a formal policy of *juste-retour* represents a vital defence of national industries assets against the power and productivity of the larger states' defence of national companies".<sup>468</sup> In order to have a truly competitive market, states should have similar capabilities, otherwise stronger states are likely to prevail.

Currently, the global balance principle applies to the sub-contractor level and is foreseen among the states participating in a programme: it cannot be otherwise, since it is not possible to tell a state to invest money and to have no return at all. As General Cardinali points out, global balance permits to apply competition to the single programme by monitoring its development.<sup>469</sup> Only if none of the participating State provides an appropriate system (evaluated on the basis of OCCAR performance tasks) can competition be broadened to other Members States not participating in the programme. In fact, the monitoring process is of the paramount importance in order to apply the global

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<sup>466</sup> Philippe Castellani, "OCCAR: un exemple pratique de la coopération européenne en matière de défense", *Proceedings*, Centre d'Etudes de Defense, Paris, 2004, p. 5.

<sup>467</sup> Major General Guido Andries, 2004, p. 15.

<sup>468</sup> Keith Hayward, 1997, p. 27.

<sup>469</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

balance principle: prime contractors should be compelled to inform and to make clear how their subcontracting procedures have been pursued. In the case of the A400M programme the prime contractor employs the “best endeavour” practice, meaning that competition is enhanced and promoted in a context in which an industrial return should be considered but not necessarily applied (as it was the case with the *juste-retour* practice). If it is apparently not efficient to confer work on the basis of the financial contribution, then this is not being done. Summing up, “best endeavour” aims at balancing a return but this is not the principal criterion according to which sub-contracts are awarded; there is an effort but not a commitment to do that. It would have been difficult to apply the global balance for old programmes: since their contracts did not require to provide data on sub-contracts awarding, it would have been difficult to calculate work-share and envision a multi-year-multi programme return.

## **4.8 Integration of a programme in OCCAR**

After having explained two of the most important principles guiding OCCAR’s procurement practices, it is paramount to assess how a programme comes to be integrated within the organization and the phases of the procurement process. As seen before, OCCAR can be interpreted as the result of states’ coordinated activities in the field of defence procurement. Notwithstanding its permanent rules, regulations and decision-making procedures OCCAR is an organization that can carry forward its potentialities and functions only by managing the programmes states decide to integrate. Therefore, every decision regarding integration of a programme requires a coordinated move by states; also, coordination is necessary to assure the programme passage through the various stages of its life-cycle within OCCAR.

The integration phase is that fundamental step which assigns to OCCAR the management of a weapon system. The integration process is composed of three steps: a BoS Integration Decision authorizes the integration of a programme in OCCAR, the phase(s) to be developed by OCCAR and the schedule to be respected, and should be unanimously agreed. A Memorandum of Understanding (MoU) commits the participants in the Programme and assures that whenever the programme is yet existing it should adhere to OCCAR management rules, regulations and principles. Finally, the Programme Decision is a legally binding decision taken by the Board of the states participating

in the Programme and stating in a detailed way the management process that OCCAR should undertake (including the contractual process, cost forecasting and High Level Objectives).<sup>470</sup>

In order to avoid “unnecessary duplications” the BoS has set guidelines for the redaction of a Memorandum of Understanding guide applicable to all Programmes.<sup>471</sup> Once the programme is integrated, OCCAR performs its management tasks in accordance with its role and responsibilities and following the guidelines of the Programme Decision.

First of all, according to OCCAR rules, the entire Programme, from the Initial concept to In-Service Support must be seen as an integrated process: in fact, after the identification of the better procurement strategy, the procurement activities within each phase should be pooled together in order to have a thorough view of what is needed: the programme management, financial, contracts and human resources will be grouped together so as to identify all the risks more easily and work in teams.<sup>472</sup> Also, as stated by the Director, “we will endeavour to integrate all processes and initiatives into a single business management framework. Within that framework special emphasis will be put on the management of programme and corporate risk”.<sup>473</sup> The aims towards excellence can permit OCCAR to make the difference and be considered as the first choice in Europe: this is why OCCAR’ s strategy is that of improving the performances of the Organization. High level Objectives (performance, time and costs), stated in the Programme Decision, will stress the priorities OCCAR should focus on; for their identification close team work and shared information are required.<sup>474</sup>

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<sup>470</sup> OCCAR Board of Supervisors, “Programme Integration Procedures”, OCCAR Management Procedure 2, March 2007, p. 2, [http:// www.occar-ea.org/media/raw/OMP2\\_Programme\\_Integration\\_Procedures\\_Issue5\\_121107.pdf](http://www.occar-ea.org/media/raw/OMP2_Programme_Integration_Procedures_Issue5_121107.pdf).

<sup>471</sup> OCCAR Board of Supervisors, “Guidelines on the Preparation of Memoranda of Understanding for OCCAR Programmes”, MoU Guidelines, Issue 2, May 19, 2005, [http:// www.occar-ea.org/ media/ raw/ OMP\\_2\\_MoU\\_Guidelines\\_iss2.pdf](http://www.occar-ea.org/media/raw/OMP_2_MoU_Guidelines_iss2.pdf).

<sup>472</sup> OCCAR Management Procedure 1, “Principal Programme Management Procedure”, p. 2.

<sup>473</sup> General Nazzareno Cardinali, “Foreword”, OCCAR Business Plan 2005, Organization Conjointe de Coopération en Matière d’Armement , 2004, p. 5.

<sup>474</sup> In particular, the Programme Decision defines High Level Objectives, shapes the Organization and the duties to be accomplished by the Programme

A Programme Manager is entitled of the monitoring of a programme development, while the Programme Decision embodies the arrangements established between Member States and OCCAR regarding each Programme. The Programme Manager works with national representatives, encompassed in the Programme Working Group(PWG), which helps the Manager to keep discussions open among OCCAR and National States. The Programme Division is a team in charge of the management of a specific programme and is headed by the Programme Manager which shall report on a regular basis to the Director the developments or the problems encountered and, if required by Member States, propose alternatives or recommendations. On the basis of these reports, the Director will refer to the Programme Committee (4.2.4.4 OCCAR Management Procedure 1). The reporting work, which should provide relevant, concise and timely information<sup>475</sup> is paramount in order to supervise the management process as well as to get back to the bodies representing the Member States (BoS, Programmes Boards and all the subordinate bodies). The provision of information should help Member States to be informed and therefore confident of the work of the organization as well as speed up decisions which would otherwise linger behind divergent national procurement approaches and degree of information available.

Within OCCAR, communication among customers, Member States and the other structures is necessary in order to pave the way for a sound management work. Some of the information and documents that OCCAR produce and related to Programme activities are classified as “sensitive” and may comprise commercial details of offers, technical description, drawings, operational requirements and product descriptions.<sup>476</sup> These issues are not strictly related to security interests but require monitoring; therefore a series of procedures are established

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Division, establishes financial requirement over time, sets the contractual procedure and the approval levels, manages security aspect and security agreements with non-Member States. See OCCAR Presentation to Civil Defence School, 2005, p. 35.

<sup>475</sup> OCCAR Management Procedure 3, “Corporate Management”, Section 2.3.

<sup>476</sup> OCCAR, “Handling of sensitive information”, OCCAR Management Procedure 12, July 2006, Section 2, [http:// www.occar-ea.org/media/raw/OMP12\\_Sensitive\\_Information\\_issue2\\_010706.pdf](http://www.occar-ea.org/media/raw/OMP12_Sensitive_Information_issue2_010706.pdf).

Markings can either declare that a document regarding a Programme is sensitive or even specify that the vision of a sensitive programme can only be accessed by the governments participating in it, Ex: “FSAF Sensitive-Releasable to French/Italian Governments Only”, see Section 4 of the same document.

in order to manage their handling. These information should remain in the hands of the Programme Divisions and under certain circumstances of the Director. Moreover, a series of procedures are foreseen in order to protect Classified Information (secret, confidential or restricted) as well as handle them in a uniform way.<sup>477</sup>

It is in OCCAR power to negotiate, award and administer all Programme contracts with prime contractors, the legal entities entitled of the contract of a Programme. According to the global balance procedure, which grants a multi-programme/multi-year balance, prime contractors as well as sub-contractors, which have to be on the WEAG (Western European Armament Group closed in 2004) spectrum, should be selected competitively following costs and capability criteria (but with all the exceptions aforementioned).<sup>478</sup> OCCAR-EA is aimed at being the only interface with Programme Contractors; this means that, unless stated otherwise and in order to improve the effectiveness of OCCAR management capabilities, there will be no direct communication between Member States participating in a Programme and the Programme Contractor in matters regarding the management and contractual procedures of the Programme. The Executive Administration, through its reporting activity will inform Participating States.<sup>479</sup>

In the placement of contracts OCCAR should “exercise impartiality and consistency of treatment in its dealings with potential suppliers, respect commercial confidentiality and uphold the integrity of a Contract which requires the due performance of obligations freely entered into by both parties”.<sup>480</sup> The document which helps placing contracts is the Procurement Strategy, which defines requirements for the Programme (Programme Operational Requirement) such as cost options, timescales, risks, industrial considerations, the procurement method and In-Service Support strategy; the handling of this document is of the paramount importance since “the success of a programme in

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<sup>477</sup> OCCAR, “Security Regulation”, OCCAR Management Procedure 11, June 2007, Section 1, [http://www.occar-ea.org/media/raw/OMP11\\_Security\\_Regulations\\_issue3\\_010607.pdf](http://www.occar-ea.org/media/raw/OMP11_Security_Regulations_issue3_010607.pdf).

<sup>478</sup> OCCAR Management Procedure 2, “Participation of non-member States in OCCAR Managed Programmes”, Work Allocation. A sub-contractor is defined as a person or a legal entity which has been assigned a work from a prime contractor or another sub-contractor.

<sup>479</sup> OCCAR Management Procedure 4, “Legal Aspects”, Section 3.3.2.

<sup>480</sup> OCCAR Management procedure 5, “Contract Placement Procedure”, Section 1.

terms of schedule, performances and costs depends on the quality of the parameters established at the beginning of the programme”.<sup>481</sup>

It is OCCAR’s preference to assign a contract for the whole system to a prime contractor which will then get in contact and manage with a certain autonomy (if it has been selected competitively) its commercial policies with subcontractors. This practice is aimed at shifting the balance of responsibilities in terms of time delivery, delays and effectiveness to the prime contractor: in this way contractors are pushed to optimise their performances. If products are not delivered on schedule as foreseen on the Programme Decision, the Contractor should pay to the Contracting Authority the amount envisaged for delays in deliver.<sup>482</sup> OCCAR was eager to encourage the creation of integrated and transnational prime contractors and this willingness reflected a changed relationship between governments and industry, “whilst everyone understand that the ultimate risk-by which I mean the risk of success or failure on the battlefield-will always remain with governments, there is an increasing desire, on the part of governments, to make industry bear the responsibility for cost, integration and in-service availability”.<sup>483</sup>

In order to reduce the complexity of the tendering process OCCAR can issue to potential contractors a Pre-Qualification Questionnaire(PQQ) in order to assess suppliers ability to meet the requirements needed; in fact, “the selection of tenderers is a critical element of competitive tendering, only suppliers capable of carrying out the work and with which OCCAR would be prepared to place a contract should be invited to tender”.<sup>484</sup> The logic that stands behind this is concretized within the

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<sup>481</sup> OCCAR Presentation to the Civil Defence School, 2005, 62.

<sup>482</sup> OCCAR, “OCCAR Standard Articles”, ANNEX A to OCCAR Management procedure 6, August 2007, Paragraph 3.2.1, [http:// www.occar-eea.org/media/raw/Annex\\_OMP6\\_A\\_Issue\\_1\\_030807.pdf](http://www.occar-eea.org/media/raw/Annex_OMP6_A_Issue_1_030807.pdf). The procedure OCCAR has envisioned in order to optimise the satisfaction of customers is to adopt a more “commercial” contract approach, able to shift more responsibilities on suppliers. Nevertheless, it should be considered that too much a burden shifted on the industry can have negative effects on time and schedule, and therefore a sound balance should be found. The setting of a commercial contracting principle and procedures will create consistency of approach for industrial actors.

<sup>483</sup> Denis Ranque, “Confronting Reality in Defence Procurement: Future Trends and Challenges”, *RUSI Journal*, April, 2004, p. 57.

<sup>484</sup> OCCAR Management Procedure 5, “Contract Placement Procedure”, Annex E. It is noteworthy that in Annex E it is underlined that “OCCAR will not

A400M aircraft, where OCCAR shifted the responsibilities of the programme to the prime contractor signing a fixed-price contract. Since economic risks may be strong for a Company, this latter should show reliability and ability to take forward the production process. This was not the case in the past when feeble consortia or joint-ventures where not a trustworthy interface able to face risks. Interesting to see is how Airbus Military Company (AMC) will face the delays the programme (A400M aircraft) is experiencing especially because of its engine: the contract signed should assure OCCAR and the nations states engaged because it shifted the burden of eventual costs adjustments to the Company.

OCCAR' s aim is that of being an efficient procurement organization, to achieve best value for money: therefore and as said before, its main target is that of promoting competition in assigning a contract, "the aim of competition is to promote keen pricing, to encourage the most efficient use of industrial resources and to stimulate innovation and new ideas".<sup>485</sup> Alas, and aside from the reasons aforementioned, competition may sometimes be downplayed by the fact that in most of the cases only a small number of countries is able to develop a system, and therefore competition arises only at the sub-contractor level.<sup>486</sup>

Anyway, the prime contractor is required, as stated before, to provide information about the policies through which to assure competition (Procurement Plan).

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normally consider such suppliers (joint ventures/Consortium Management Companies) to be invited to tender or to provide a proposal unless they assist in the creation of a pan-European defence industry"(E.3.1.a). Is Airbus Military conceived in this vein? The statement is reinforced also by the Article explaining that joint ventures should not be created to satisfy the requirement needed only for a limited period of time (E.3.1.a).

<sup>485</sup> OCCAR Management Procedure 5, "Contract Placement Procedure": Section 3.

<sup>486</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 30, 2005a. General Cardinali stresses that for example Airbus Military should apply the "best-endeavour" principle with subcontractors, according to which to assure a certain balance in work-sharing among national industries it is possible to allocate work on a "second-best" basis: if a country wins too much of tenders then the contract is awarded to the second-best tender. It is clear that the strongest country is able to win most of the tenders. This is another limitation to a pure competitive process. For this reason Cardinali affirms that competition rests within a "controlled environment".



As seen, the contractual practice has never been an easy process and has caused more than a dispute among states. A case in point is the MRV(future BOXER) Programme: at the outset of the programme conception France was considering to build an armoured vehicle. Conflicts among partners existed on different operative requirements but a more deep conflict existed on the way in which to award the contract, because this had inevitably a distributional impact. The United Kingdom and Germany favoured- at least at the design stage- a competitive contract awarding process, while France wanted a simple work-sharing (*juste retour*) that would have guaranteed its GIAT(*Groupement Industriel des Armements Terrestres*) participation in the programme. Nevertheless at that time GIAT was in severe economic conditions and could not freely compete with the other industries. The compromise that France reached with the United Kingdom and Germany, given its relative low power, did not meet its preferences: it asserted the possibility for GIAT to participated after the Anglo-German winners were defined. This was enough for France not to go on with the programme and pursue a national alternative. The UK, instead, took advantage of this situation and did win the struggle with France because of its competitive industry “it seems something of a paradox that the British committed themselves to a collaborative programme in order to join a Franco-German initiative in which the French partner saw its first new venture become a largely Anglo-German affairs”.<sup>487</sup> It is more so, if we take into account that the United Kingdom finally withdrew from the programme.

#### 4.9 The life-cycle of a programme

As seen before, the integration phase is that fundamental process through which national states confer to OCCAR the management of a cooperative multinational programme. OCCAR is not a traditional procurement agency but it is devoted to efficiency and to customer satisfaction: the idea is that by being free from industries’ pressures it is able to assure a more competitive procurement process. States that integrate programmes in OCCAR know that their internal procurement strategies are no longer applicable and this implies two things: first, they will face common rules and regulations that together agreed to establish easing cooperative efforts. Second, states can take forward programmes sometimes stymied by internal intricacies.

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<sup>487</sup> Keith Hayward , 1997, 34.

Notwithstanding this, states are still reluctant to confer to OCCAR programmes from the very beginning of the procurement process, exactly where it would be more profitable. In fact, the procurement process is made up of multiple phases, the first of which is the 'preparation phase', that implies basically the definition of commercial arrangements and technical specificities such as capabilities needed, funds required, "OCCAR may potentially intervene in this phase, and therefore contribute to harmonize military requirements of different countries: if states agree to enter this phase then the organization could define the operative requirements, while normally, instead, this are developed by states and only afterwards presented to OCCAR".<sup>488</sup> In fact, if the preparation phase was geared together and states were required to assess the capabilities needed in order to face new challenges, an harmonization of requirements would inevitably come about, to the benefit of a common European Defence Strategy. States would agree together that national systems are not enough to promise national defence and that new challenges require cooperation and interoperability among weapon systems; armaments manageable by all European states would pave the way for a truly integrated procurement process.

In 'Programme definition' the feasibility of the programme is tested together with its potential costs and the problems likely to arise: this phase should end when an operative requirement has been developed. States are not used to cooperate in the definition phase because they need to define the perimeter of the programme and only after that they relate to each other: some of the aspects and peculiarities of the programme need to be defined clearly, while in OCCAR they may go out of their control. Notwithstanding that, OCCAR may manage all the other phases of a programme life-cycle: development, production and In-Service Support, but the preparation and definition activities, concerning mission analysis and feasibility studies, are prepared by Member States.

The development phase, that regards the BOXER, FREMM and partially the TIGER HAD programmes, assists the preparation phase,

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<sup>488</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a. The preparation phase, explains Cardinali, tries to answer the question: which is the capability to be satisfied? This answer is more likely to be faced by EDA, but what if EDA is not able to foster common operative requirement by states? Would not the entire defence process be damaged by this fallacy?

its certification, the fulfilment of the security standards and the meeting of requirements. In particular, this phase is aimed at specifying in details the system, developing it, testing it and finally qualifying it, while assets for the industrial production are ascertained. After a positive judgment on these aspects and after states' approval, the system would pass through industrialization and production. The In-Service phase enters the stage when Participating States decide to employ the weapon system; this phase can be assigned to OCCAR and its Programme Division which, through the Management Procedures, will implement common In-Service technical management and support functions.<sup>489</sup>

OCCAR Management Procedure asserts that “in order to gain maximum benefit from the management of a collaborative system by OCCAR, a Programme should not be integrated later than the start of the definition phase. However the participating states may decide to integrate a Programme in OCCAR at any stage of its life and possibly after a phase has already begun”.<sup>490</sup>

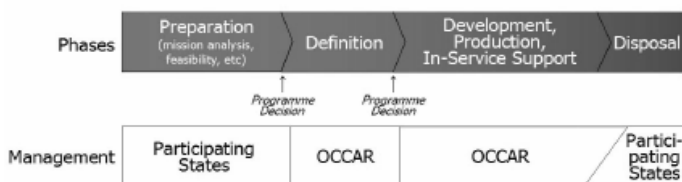


Figure 12. Optimum Programme Phasing. Source: OCCAR Management Procedure 1, [http://www.occar-ea.org/media/raw/OMP1\\_Programme\\_Management\\_issue2\\_010706.pdf](http://www.occar-ea.org/media/raw/OMP1_Programme_Management_issue2_010706.pdf)

The previous Director of the Executive Administration Klaus Von Sperber affirms that, “it is important for OCCAR to continuously improve the effectiveness of its programmes, to be involved in programme preparation and planning (from the earliest stages) and to

<sup>489</sup> OCCAR Management Procedure 1, “Principal Programme Management Procedure”: Paragraph 3.3.

<sup>490</sup> *Ibid.*, Section 3.

position itself within the future European Defence Agency”.<sup>491</sup> The same organization emphasised in its documents that to enhance its capabilities it was deemed paramount to “realize and integrate new programmes and Technology Demonstrators from the very beginning of the life cycle”.<sup>492</sup>

In line with these arguments Jean Pierre d’Hérouville maintains that “in order to be truly efficient at the very date when a programme is assigned to it, OCCAR must be involved at an earlier stage. This involvement does not preclude any loss of responsibility from nations at that stage”,<sup>493</sup> and maintains that in the “in concept phase”, that is the phase in which nations are evaluating whether to cooperate or procure nationally a weapon system, OCCAR can participate as an observer in order to ease the integration phase once the decision to assign a programme to the organization is taken by Member States. Precisely, OCCAR could draft reports and recommendations clarifying its rules and procedures. For example, OCCAR has been an observer of the A400M and of the FREMM programmes. OCCAR’s involvement in the initial phases of a programme can help face problems at an early stage, avoiding stalemates later on, “some of the old school may see OCCAR as an intruder or a nuisance in the discussion between nations when it is an observer, but this is a non economical reaction. OCCAR stands in reality as an adviser, reminding nations of the best practices in leading cooperative projects”.<sup>494</sup>

The procurement process is thus divided in phases in order to assess technical, financial and schedule risks: working phase by phase permits to prove that each step has met its purpose before passing to another stage. For each phase a Programme Management Plan is created and

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<sup>491</sup> Karl Von Sperber, “Foreword”, OCCAR-EA Business Plan 2004, Organization Conjointe de Coopération en Matière d’Armement, 2003, p. 3, [http://www.occar-ea.org/media/raw/BP\\_2004\\_issue01.pdf](http://www.occar-ea.org/media/raw/BP_2004_issue01.pdf).

<sup>492</sup> OCCAR Presentation to the Civil Defence School, 2005, p. 62.

<sup>493</sup> Jean-Pierre d’Hérouville, “OCCAR Involvement in Future Programmes”, *Military Technology*, Special Issue, 2004, p. 16. The Special Issue of the *Military Technology Journal* in 2004 was entirely dedicated to OCCAR; it encompassed interventions from OCCAR staff, specialists in military issues as well as components of the industries and military forces of the Nations participating in the organization. Its aim was to ascertain the results OCCAR did reach from the achievement of the legal status in 2001. “On the way to Success” was the subtitle, and underlined the potentialities but also the limits encountered thus far by the Organization.

<sup>494</sup> *Ibid.* p. 16.

explains the organization and the resources needed, the methods used, the tasks to be undertaken to achieve the programme purposes. Each programme will be divided in as many phases as it is deemed efficient for it: given that more phases will inevitably require longer works and costs a sound trade-off should be devised in order to curb them. Delaying in programmes state-of-the art is a problem OCCAR is aiming at facing: while risk reduction through division in phases is a step toward a more efficient procurement strategy, the time extension implied in it could determine an increase in the costs of the process because of prolonged negotiations. To handle this issue OCCAR has foreseen a unique contract for production and development: this would potentially save time, while risk management procedures would mitigate the pitfalls encompassed in a sole phase.

#### **4.10 Improving performances: coordination in “In-Service Support”**

Looking at the state of OCCAR’s programmes it seems that for the near future the main function OCCAR is going to perform is the In-Service Support one, “as more and more OCCAR-managed Programmes enter the In-service Support Phase, we will ensure that our processes, methods, tools and organizational structure are optimised for the specific ISS-related requirements”.<sup>495</sup> States can decide either to manage this phase by themselves or to assign its management to a specific agency. The reasons states may want to manage this phase in cooperation are the same envisioned above and remind to economies of scale and general savings opportunities. Nevertheless, the possibility to manage this phase in cooperation has also important strategic repercussions that will be analysed below.

It is difficult to-date to ascertain whether and how many new programmes will be integrated in OCCAR; therefore, the organization aims at specializing in the In-Service Support phase so as to deepen its potentialities as a procurement agency and to provide further benefits to the Member States. OCCAR wants to optimise its capabilities in order to be “the first choice for managing specification, contracting and acceptance for the engineering and logistic elements in all activities,

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<sup>495</sup> General Nazzareno Cardinali, “Foreword by OCCAR-EA Director”, OCCAR Business Plan 2007, Organization Conjointe de Coopération en Matière d’Armement, 2006, p. 5.

commercial aspects and information management’’.<sup>496</sup> Starting from 2004, OCCAR envisioned the In-Service Support as one of its main activities and recommended to develop systems for ascertaining and including life-cycle cost considerations as early as possible in the procurement cycle. The most visible challenges that the organization has to face now regard distributional tensions among Member States: for every state cooperation in this phase is absolutely preferable than a non-cooperative process for economic and strategic reasons, but each state is used to a particular support system and would like to see the arrangement that most satisfies its preferences. A cooperative management of this phase through OCCAR would inevitably require a certain standardization of practices towards a joint support, “it is clear that if production and development market is fragmented the one for In-Service Support is even more complicated. This is so because each armed force operative exigency and the specific conditions in which it works requires a more strict control that would probably be lost within an International Organism’’.<sup>497</sup>

The In-Service-Support (ISS) is of paramount importance for an organization as OCCAR, because it can potentially pave the way for harmonization of practices and point to the direction of rationalization and common work, both remarkable aims of OCCAR. Assessing the problems and the challenges this phase could represent for states deciding to pool resources highlights once again the peculiarities of an organization dealing with defence issues and facing distributional issues.

Every complex system has a life on its own, a life-cycle that encompasses the development, production and support of a weapon system. “Support” means that when completed a system should prove its performances and absolve the tasks it was created for. The In-Service phase coincides with the operative life of a system that strategically and temporarily represents the most important period of the programme life-cycle.<sup>498</sup> strategically because it is in this phase that the system is required to reach, maintain and improve its operative performances and temporarily because this phase has an extension of

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<sup>496</sup> OCCAR, “Corporate Strategy”, OCCAR Strategy Paper : Section 6.2.

<sup>497</sup> General Nazzareno Cardinali, “Indagine Conoscitiva sullo stato attuale e sulle prospettive dell’industria della difesa e sulla cooperazione in materia di armamenti”, 2007d, pp. 13-14, <http://www.senato.it/documenti/repository/commissioni/stenografici/15/comm04/04a-20070529-IC-0431.pdf>.

<sup>498</sup> Lieutenant Commander Carlo Aliberti, ISS expert, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, Novembre 27, 2007.

almost 2/3 of the whole life-cycle. It is apparent that, aside from production costs, there are huge other costs linked to maintenance of the system, adaptation and adjustment: costs that could soar up to 70% of the entire programme, “it is like an iceberg, where the biggest part is hidden under the sea, while the minor part comes out and sometimes gives a misleading and false vision of the submerged one”.<sup>499</sup> Given the huge costs this phase is likely to exhibit, the better solution would be that right in the preparation or definition phase logistic requirements for the support of the system were assessed, a process called “integrated logistic support”: in this way it would be possible to have a clear-cut vision of the financial efforts needed for the In-Service Support phase from the very beginning of the programme.

The aim of OCCAR is to provide services in eight macro-activities embodied in this phase:

- configuration management: it permits to have a precise and timely assessment of the exact configuration of the system, its “work breakdown structure”, its real and authorized configuration. It is a complex activity which requires a complex organization. It is necessary, for example, to have a perfect interconnection among informative systems: among producers, suppliers, industries, states, so that various actors are engaged at more levels.
- Technical event management: it supervises and assesses the compatibility of technical elements with those required, and comprises studies to prevent the rise of technical problems.
- Supply support management: it regards the individuation and the release of spare materials.
- Maintenance management: it regards the maintenance of the system and the correction of its shortfalls. It can range from the substitution of parts of the system till inspections at regular time-frames.
- Post-design services: similar to development this activity enters the game at the middle of the programme life-cycle. It entails a technical analysis of the possible updates to the basic project, so as to improve its performances or to maintain them through time. In fact, requirements can change during the life of a programme and an update of the system is necessary in these cases, even if less significant technical adjustment may also be brought about.

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<sup>499</sup> *Ibid.*

- Obsolescence management: it regards the individuation of parts that can become obsolete and selection of the tools likely to handle this problem: stockpile material, substitution with a similar component, change of the entire system. This activity is getting more and more important in new generation systems where exigencies are determined by the difference in operative life among the complex system (20-25 years) and the elements composing it (such as computers, software).
- Technical documentation management: it regards the management of the technical information (updating, corrections, adaptations, broadening). Without documentation it is not possible to use the system.
- Training management: education of the technical staff charged of the management and servicing of the system.

It is clear that In-Service Support does not need to encompass all of the phases just presented; in fact, a support activity may well cover only some of these activities or some other not presented here. Also, OCCAR's attempt at identifying eight macro-activities is tentative; some of them seem to overlap and need a clearer and detailed definition specifying their realm of application. In order to provide those services, OCCAR needs to develop a 'process model' so as to enhance, through a defined and consistent project and quantitative parameters of performances, states confidence in OCCAR's In-Service Support management.<sup>500</sup>

Why should states confer the In-Service Support phase of a programme to OCCAR? As said before, there are advantages to let OCCAR manage this phase if the organization has taken part in the development and the production of the same: because it would possess information regarding the system, it would be able to manage it appropriately. If cooperation in the first phases of a programme is deemed beneficial and if the more relevant costs are for the ISS phase, it is apparent that greater scale economies may be reached through cost-sharing in this phase, "it is clear that the more synergies and commonality can be

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<sup>500</sup> Lieutenant Colonel Stefano Delle Chiaie, ISS expert, OCCAR-EA, *Interview*, Novembre 27, 2007. Carlo Aliberti maintains that actually OCCAR is engaged in developing an innovative management process of this phase which foresees the possibility to provide timely verification tools of the activities undertaken. This instrument could help OCCAR provide that added value in ISS activities able to attract even advanced programme.



achieved in this phase by nations using the same equipment, the more savings can be achieved".<sup>501</sup>

That said, OCCAR aims at becoming an excellence centre for ISS support in absolute terms, meaning that it aims at capturing the attention of states even for programmes not integrated in OCCAR. Managing the ISS phase for multilateral programmes in cooperation brings about advantages for participating states when positive achievements overpass the loss of potential national returns.<sup>502</sup> OCCAR has to act so as to underline and stress these positives achievements in particular by adapting the support system to different logistic requirements, favouring in this way interoperability.<sup>503</sup> Of course, if states use exactly the same weapon systems economies of scale would spread out considerable effects also in the In-Service phase: all the logistic would benefit from that because, for example, offices can be kept in common and it would be possible to reduce servicing centres. Nevertheless, even without exactly the same armaments it is possible to save on and improve contractual procedures within OCCAR: supposing that OCCAR is not influenced by industrial pressures and that it has good contractual skills, it can acquire a bigger amount of stockpiles for a less individual cost compared to national orders. OCCAR would follow its management procedures which, as seen before, render it more free from the burdensome complications of and sometimes incompatibilities among national legislations and procedures. Given that basic weapon systems in OCCAR are similar for all states, the possibility arises to enhance interoperability through pooling ISS activities. Instead, if, because of different requirements, a duplication of ISS activities should emerge, no benefits would be found in OCCAR activities. All depends on the way in which the organization is able to optimize this phase and on the way in which states agree to coordinate the previous phases of the programme life-cycle.

Notwithstanding all the potential beneficial achievements, states remain reluctant to assign OCCAR the management of this phase specifically for fear of losing national prerogatives or of losing control of their actions. The negotiations leading to agreements are long and states try to keep and advanced their preferred solutions. As an

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<sup>501</sup>General Nazzareno Cardinali, "Armaments: Which Technologies for Which Defence?", Address delivered at the Centre des Hautes études de l'Armement, Paris, November 19, 2007b, p. 14.

<sup>502</sup>Lieutenant Commander Carlo Aliberti, *Interview*, 2007.

<sup>503</sup>*Ibid.*

expert on this issue maintains, there are not technical reasons that motivate states' reticence for a common management of ISS through OCCAR, but essentially political ones.<sup>504</sup> Industrial interests at stake are much higher in this phase for the reasons abovementioned. If a state has a low work-share within a programme the trade-off resulting from conferring the management of the phase to OCCAR is not particularly high; instead, for big amounts of work-share, the calculus is much more arduous since states do not want to lose their position and their returns within the programme. A case in point is the A400M aircraft: states such as France and Germany, who have huge take-offs, exhibit different positions from states which participate in a less significant way. In this case, the states would have to weigh the benefits - economic and strategic- of a common support with the backside - industrial and political- of such a choice. On this latter aspect it should be noticed that given the economic relevance of the ISS phase, national states have developed through time vast structures devoted to this task which would resent the "externalization" of the activity and the inevitable linkage with and dependence from other nations.

Aside from pure industrial motivations, which nevertheless constitute most of states' reticence towards common ISS, stand other important factors. As Lieutenant Commander Carlo Aliberti maintains, in order to manage appropriately the ISS phase information flows should be enormous, continuous and immediate. The quantity of information that should be exchanged asks for the existence of well structured, ramified and safe communication channels not yet available in the military field among nations participating in different programmes.

Timely information is equally of the paramount importance: a late information is equal to a complete hampering of the whole support system performances. Also, information may be sensitive in some cases and states may be reluctant to provide them as this phase practices request. What is at stake in this case is not a 'technological transfer', which is embodied in previous phases of the programme, but the national security of states: whenever a state declares that one of its components or an entire system is out of order, it may potentially endanger its safety because such information regard the "availability" and not merely the possession of the system.<sup>505</sup> Moreover, for example,

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<sup>504</sup> Lieutenant Commander Carlo Aliberti and Lieutenant Colonel Stefano Delle Chiaie, *Interviews*, 2007.

<sup>505</sup> Lieutenant Commander Carlo Aliberti affirms that notwithstanding the fact that rivalries are no longer characterizing relationships among European States,

if OCCAR would manage the “technical event” activity it would have potentially the authority to stop an entire fleet if the need arises: if the fleet in question is the one concerned with aerial defence a state would be reluctant to follow OCCAR devices and would rather keep control over every similar decision.

For all these reasons, experts suggest that ISS phase of big and vital weapon systems would probably never be conferred to OCCAR, or at least, that the more sensitive activities of the ISS would never be relinquished to the organization. That said, some ISS activities do not constitute the big challenges aforementioned: the “obsolescence” activity does not reveal a strategic shortfall of a nation but rather it permits to locate and correct elements to the benefit of all the nations engaged in a programme. Inevitably, there is a critical path that should be respected when conferring some ISS activities to the organization: the configuration phase comes before every other activity because it is necessary to carry forward all other phases. Therefore, if a common management of ‘obsolescence’ is approved the ‘configuration’ activity has to be implicitly agreed.

Some of OCCAR’s programmes are in or will enter soon the ISS phase: this means that states have decided to confer some of the ISS activities to OCCAR. Configuration and supply support are foreseen for the TIGER, COBRA and FSAF programmes, while as for the A400M aircraft only a minimal core has been reached because of the problems illustrated above regarding different levels of work-share among states. Added to that, states exhibit polar conception about the sound way to servicing a system. This is why it is difficult for OCCAR to go on with its functions and improve its potentialities: in order to accomplish these tasks a partial cession of sovereignty or renunciation of national prerogatives would be required. This does not mean that a state loses its political control on programmes but at least that if coordination is agreed upon it can not always reach its preferred outcome. This is especially true because of two reasons: it acts with other powerful states and compromise is the best strategy if weighted on the balance sheet.

States do want OCCAR to perform beneficial cooperative actions up to the point where their interests and position are not endangered. Therefore, the coordination achieved for OCCAR’s creation has to be constantly re-negotiated whenever a new step has to be undertaken.

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these latter are still careful to share information related to shortfalls in their national security system.

### 4.11 Where does OCCAR stand?

This section deals with the state-of-the art of the organization and highlights how this has grown since its creation in 2001. This analysis is of the paramount importance because it helps understand the limits but also the potentialities of such an agency.

The figure below shows the likely evolution of OCCAR’s programmes based on their current stage of development: delays or postponements of the expected path would therefore hide controversies among states, temporarily lack of funds or shortfalls in the productive process.

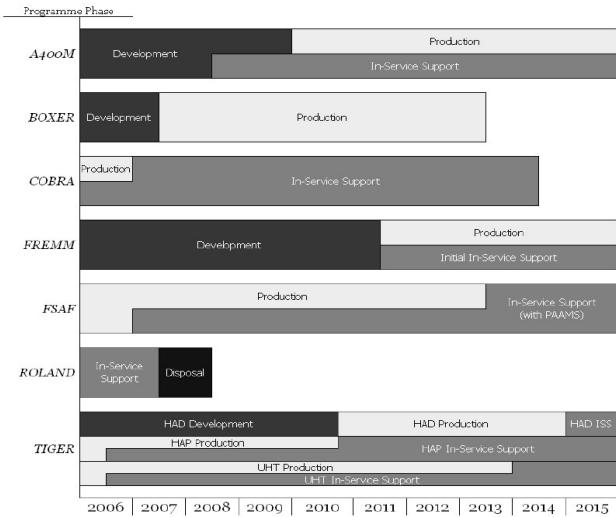


Figure 13: OCCAR-EA projected evolution based upon the current Programmes. Source: OCCAR Corporate Strategy, Strategy Paper 14, 2006, p. 6.

What emerges from this figure is first of all that programmes are facing an advanced phase of their life-cycle and that therefore the ISS phase will be the one that will engage OCCAR the most in the near future. Second, OCCAR growth potentialities cannot be appreciated only by optimizing the ISS phase but also by increasing the number of programmes to work with: this is important both for the application of the global-balance principle and to confirm OCCAR as a choice for procuring multinational programmes in cooperation.

The feeling that the organization does not live up to its aspirations is shared both by OCCAR staff and by experts outside it: the general

agreement is that "OCCAR has not grown in proportion to the ambition contained in the Convention".<sup>506</sup> This is gloomy, given that the aim of the Director for 2005 was to focus efforts in two areas: growth and excellence in programme management. The previous Director of the Executive Administration recognized in 2003 that a huge amount of work should have been conferred to the agency in order to create and forge a European armament capability able to face declining defence budgets and satisfy nations' desire to cooperate on defence issues.<sup>507</sup> Director General Cardinali stated in 2005 that OCCAR was managing only 4% of the total investments for defence, while it should have reached 50%, that global balance was not applied and that part of the objectives set by OCCAR would have been achieved by EDA.<sup>508</sup> In 2007 OCCAR has been managing 10% of the total investments for defence and a budget of 4000000000 Euros, a more encouraging number. Among OCCAR's strategic objectives to be pursued in 2005 there was to increase the number of programmes and financial engagement through the management of most of the European cooperation projects by 2015-2020, given that the integration and common management of more and more programmes within OCCAR would have inevitably led to a certain harmonization of capabilities.<sup>509</sup> In 2004, the French Senate remarked that having been assigned two big programmes such as the A400M and FSAF, OCCAR had considerably enlarged its dimension and had the opportunity to put in practice its acquisition policy.<sup>510</sup> In 2004 Business Plan, four programmes among which a TDP(Technology Demonstrator Programme) were under scrutiny for integration in OCCAR: FREMM(planned integration year 2004) which entailed a cooperation between France and Italy for the development and production of multi-mission frigates and with an estimated budget of 9000M Euros; PAAMS(planned integration year 2004) which

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<sup>506</sup> OCCAR, "Corporate Strategy", OCCAR Strategy Paper, 2006, Section 4.2.

<sup>507</sup> General Nazzareno Cardinali, "Foreword", OCCAR Business Plan, 2005, Organization Conjointe de Coopération en Matière d'Armement, 2004, p. 5 and Klaus von Sperber, "Foreword", OCCAR Business Plan 2004, Organization Conjointe de Coopération en Matière d'Armement, 2003, p. 3.

<sup>508</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 30, 2005a.

<sup>509</sup> OCCAR Presentation to Civil defence School (2005), p. 58.

<sup>510</sup> French Senate, « Avis présenté au nom de la Commission des Affaires étrangères, de la défense et des forces armées sur le projet de loi de finance pour 2005, adopté par l'Assemblée Nationale », Ordinary Session 2004-2005, <http://cubitus.senat.fr/rap/a04-077-6/a04-077-60.html>.

involved the development and production of a ship-to-air missile system between France, Italy and the UK to be incorporated into the existing FSAF Programme Division; integration of Spain in 2004 into the TIGER programme which foresaw the introduction of a new version of the helicopter (HAD); the PIONIÈRE/EGACOD, a TDP, (planned integration in 2003/2004), which concerned the concept demonstration of specific functions of an armoured engineer vehicle; it was promoted by Italy and France and had an estimated cost of 10 M of Euros.

Of these initiatives, the FREMM programme and Spain integration in TIGER were postponed to 2005: in the first case because of indecisions showed by the Italian Government and in the second because Spain integration required a new trilateral agreement and refurbished work-shares. PAAMS munitions procurement was integrated in the FSAF programme. PIONIÈRE found the agreement of Italy and France on common technical requirements and on Programme Strategy but waited for the BoS TDP Decision, which was expected in 2005. A new Programme, the NH 90 was considered for integration, even if without a specific timeframe. This Programme concerned the development and production of an helicopter for tactical transport -which included also a naval version- among France, Germany, Italy, the Netherlands and Portugal.

Of these programmes, PIONIÈRE and NH 90 were never developed within OCCAR. As explained before, among OCCAR' s functions there is also the one related to the management of Technology Demonstrator Programmes (TDPs). These latter purpose is to assess whether a certain technology is appropriate or not to operationally effective systems. It is apparent that this activity would play an important role in OCCAR attempt at reducing management risk and therefore improving its operating procedures, "equipment or programme TDPs are an important component in the long term reduction of programme risk and the early involvement of OCCAR-EA is therefore likely to increase the long-term efficiency and effectiveness of OCCAR management of any resultant equipment programmes".<sup>511</sup> Moreover, sometimes TDPs

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<sup>511</sup> OCCAR, "TDP Management within OCCAR-EA", *Policy Paper*, August (2003), [http://www.occar-ea.org/media/raw/OMP\\_1\\_TDP\\_Policy\\_Paper\\_iss1.pdf](http://www.occar-ea.org/media/raw/OMP_1_TDP_Policy_Paper_iss1.pdf). A TDP may have the possibility to be managed by OCCAR in three ways: a transfer by Participating Nations of an existing collaborative TDP, a commission for it from the nations instead of nationally derived requirements and, under some circumstances, a proposal from the Executive Administration

can be useful in order to assess the main risks of a new concept for a programme: in this case, a TDP may be programme-related and OCCAR's participation will help manage this phase and promote an integrated approach with the rest of the programme,<sup>512</sup> "Technological Demonstrators deserve a particular attention, because they are the precursors of future programmes where it is convenient that OCCAR is inserted as early as possible to reduce risks and to apply the most efficient management practices: from this perspective, all the technological demonstrators necessary to validate new concepts or new technologies should be assigned to OCCAR".<sup>513</sup>

In 2003-2004, that of including Technology Demonstrator Programmes within OCCAR competencies was one of the most important aims of the organization. In fact, this would have deepened the role of OCCAR as an armament agency rather than a pure management organization, "we will in particular strongly support the Member States in their attempt to develop further collaboration in defence procurement Programmes and TDPs".<sup>514</sup> While the Board of Supervisors did approve a Policy Paper specifying in details the management of TDPs within OCCAR and while OCCAR-EA has within its aims to engage with TDPs, no such programme currently exists and the PIONIERE had a short life. In 2005 Business Plan, the Director, General Nazzareno Cardinali, expressed his satisfaction for the agreement reached among Italy and France on the common requirements and procurement strategy for the PIONIERE/EGACOD Technology Demonstrator Programme but the programme has never been integrated into OCCAR. In fact, a basic lack of funds stemmed the achievement of a final agreement regarding the system; also, the Italian and French Societies cooperating in the programme did not propose a sound technical-economic solution since they were not able to find an agreement among themselves. The Societies did not want to assume the risks of the programme since they did not perceive a rewarding

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to the BoS on the basis of information taken from the nations (see Paragraph 3 of the TDP Management procedure).

<sup>512</sup> Jean-Pierre d'Hérouville, "OCCAR Involvement in Future Programmes", 2004, p. 16.

<sup>513</sup> Commission de la Défense Nationale et des Forces Armées, Audition du Général Nazzareno Cardinali, Directeur de l'Organisation Conjointe de Coopération en matière d'Armement, *Compte Rendu n°41*, July 21, 2005. <http://www.assemblee-nationale.fr/12/cr-cdef/04-05/c0405041.asp#TopOfPage>.

<sup>514</sup> Klaus Von Sperber, «Foreword», OCCAR Business Plan 2004, Organisation Conjointe de Coopération en Matière d'Armement, 2003, p. 3.

economic return in developing the plan; the huge amount of money requested by them has convinced national states to go on through a national path.

Programme NH90 was in the NATO frame when integration into OCCAR was proposed. Sometimes it is risky for the future of a programme to plan its passage from an organization to another given that the consent of all nations engaged is required. Apparently, some of the nations participating in the NH90 programme preferred it to remain in the NATO context. The way in which the programme was balanced and controlled in NATO could have changed significantly if integrated in OCCAR. It is all about a balance to be maintained on programme control: in OCCAR the programme would have been delegated to the Programme Manager while within NATO states had a “day by day” supervision of its development. Following the same argument, even the air-to-air missile METEOR could have been integrated in OCCAR but “the Great Britain, in a dominant position, was absolutely willing to privilege its national industry”.<sup>515</sup>

As said before, a nation, in this case the UK, wanted to keep its leadership over the programme and opposed therefore the integration of it in OCCAR. Of course, this state was the one that more strongly supported the programme. There is a Programme Office in the United Kingdom that controls English procurement: METEOR contract is delineated on the basis of English normative procedures and BAe Systems (the English Company) is the prime contractor. When states want to retain a particular control on a programme they will try to preserve their leadership position finding other cooperative setting rather than accepting integration in OCCAR. Programme are assigned whenever a substantial parity condition exists among the participants.<sup>516</sup>

The tasks envisioned by OCCAR for the next years regard the completion of programme A400M and first deliveries to participating states; achievement of BOXER final production subject to participating states' decision; design and build of the first French and Italian Frigates (FREMM), attainment of initial operating capability for SAMP/T (medium range surface-to-air system for the army) and SAAM/T (anti-missile surface-to-air system for the naval units) system and munitions

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<sup>515</sup> Jean-Pierre d'Hérouville, “L'OCCAR? Une construction européenne originale”, *Défense Nationale* 2, February, 2003.

<sup>516</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.



delivery for SAMP/T, SAAM/FR(for France), SAAM/IT(for Italy) and PAAMS(Principal Anti Air Missile Systems); completion of qualifications for HAP(Hélicoptère d'Appui Protection) and HUT (Unterstützung Hubschrauber TIGER) for the TIGER helicopter Programme and 1<sup>st</sup> prototype of the HAD (Helicoptero de Apoyo y Destruccion) Version; delivery to nation of COBRA(Weapon Locating System) and In Service-Support phase with possible integration of Turkey; disposal of ROLAND(Short Range Surface-to-Air Defence System) and finally, support of the transition into the In-Service phase of the TIGER, FSAF/PAAMS, and A400M Programmes.<sup>517</sup>

To date, there is one proposal for integration, ESSOR system. This is a small programme of 100M Euro among France, Italy, Spain, Sweden and Finland for a 'European Secured Software Defined Radio Referential'. The Programme is aimed at elaborating, in relation with the United States, the 'normative referential' requested for the development and the production of radio software in Europe, creating common security bases to increase interoperability among European forces and with the United States and stimulating balanced transatlantic relations based on SDR(Software Defined Radio). The objective is to promote a technological and industrial capability of a truly European strategic importance.<sup>518</sup>

#### 4.12 From 'Cold War minded' programmes on

Some of those labelled as "old programmes" have been of the paramount importance for the development of the organization. In general, these are programmes that existed even before the setting of OCCAR and that were conferred to it immediately after its creation. Of course, they were integrated in a late phase of their life-cycle. Below, a brief analysis of the programmes will be undertaken: what is of the utmost interest is to grasp the difficulties emerged because of different states' positions regarding the agreement to be reached.

First of all is Programme ROLAND. Its bilateral management was integrated in a permanent French-German office(*Bureau de Programmes Franco-Allemand*) in 1973; this represents the example of an existent cooperative project, in service since 1978 and used by France and Germany. ROLAND is a short-range optical/radar(20000 meters) with

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<sup>517</sup> OCCAR Business Plan 2007, "Strategic Initiatives", Organisation Conjointe de Coopération en Matière d'Armement, 2006, p. 21.

<sup>518</sup> General Nazzareno Cardinali, 2007c.

guided Surface-to-Air Missile(6000 or 8000 meters) mounted on tracked and wheeled carrier vehicles. For this programme OCCAR managed only the In-Service Support (ISS) and Ammunition Surveillance, and therefore the Programme does not mirror OCCAR new principles and management capabilities, but is instead one of the examples of the fruitful cooperation in arms procurement among Germany and France. In any case, in 2006 Germany affirmed its intention to discontinue the Ammunition Surveillance and bilateral In-Service Support of the ROLAND system and in 2007 it was joined in this decision by France. The Programme will be dismissed and OCCAR is envisioning a plan to terminate the activities.<sup>519</sup> ROLAND was thought in the Cold War context to perform specific functions that can now appear in part outdated.

In a similar way, COBRA(Counter Battery Radar) is a long-range battlefield radar programme integrated in OCCAR only in its production and In-Service Support phase. This weapon system is considered as the “world’s most advanced land based weapon locating system, comprising a high performance radar, advanced processing and an integrated, flexible command, control and communication system”;<sup>520</sup> its aim is to locate mortars, rocket launchers and artillery batteries and to provide information necessary to nullify their effectiveness and potential drawbacks. It is a cooperation Programme between France, The United Kingdom and Germany started in 1990, after protracted phases of negotiations. Interesting is the fact that it is identical in its main design for all three nations, with only small differences.<sup>521</sup> The consortium chosen in 1998 for the production was Euro-Art.<sup>522</sup> Assigned to OCCAR in 2002, it has been in service since 2005 and by 2007 all the systems have been delivered to the participating states(it is currently being employed by English troupes in Iraq). OCCAR manages the In-Service Support Phase and post

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<sup>519</sup> General Nazzareno Cardinali, “Foreword by OCCAR-EA Director”, OCCAR Business Plan 2007, Organisation Conjointe de Coopération en Matière d’Armement, 2006, p. 4. ROLAND was developed and produced by GIE EUROMISSILE.

<sup>520</sup> OCCAR Business Plan 2007, “COBRA- The World’s Most Advanced Weapon Locating System”, p. 13.

<sup>521</sup> Klaus Gewehr, “COBRA”, *Military Technology*, Special Issue, 2004, p. 36.

<sup>522</sup> EA Consortium was composed by EADS Deutschland GmbH Defence electronics(GE), Thales Air Defence(FR), Thales defence ltd.(UK) and Lockheed Martin Government Electronic Systems (US). The consortium production consists of 12 radar for Germany, 10 for France and 7 for the UK.

design Services (2007) in cooperation with a NATO Agency, NAMS(NATO Maintenance and Supply Agency). The In-Service Support phase was delayed of a huge amount of months to the disappointment of the UK due to disagreements among states about the way in which the contract should have been placed and after the decision of Germany to reduce the amount of radars ordered(Germany sold two COBRA to Turkey), that in turn required a redefinition of the production costs.<sup>523</sup>

FSAF Programme stands for an entire family of surface-to-air anti-missile systems for the navy and for the army. In particular, SAMP/T(medium range surface-to-air system for the army) was aiming at replacing the expensive Patriot System in service in Europe. A Memorandum of Understanding among France and Italy for a bilateral cooperation of these systems was signed in 1988 and a consortium named EUROSAM was created.<sup>524</sup> Phase 1 of the Programme encompassed French DGA(*Délégation Générale pour l'Armement*) contract for feasibility studies, project definition, development and qualification of SAAM/FR(anti-missile surface-to-air system for the naval units/for France composed of short range missile Aster15-short range- plus 4 naval launchers plus radar ARABEL FCS), SAAM/IT(For-Italy, Missile Aster15 plus 4 naval launchers and radar EMPAR FCS) and SAMP/T systems(Missile Aster30 -medium range-plus 6 land launchers and radar ARABEL FCS) and was concluded in 2003.<sup>525</sup> The second phase, launched in 1997, encompassed the

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<sup>523</sup> The United Kingdom Parliament, "OCCAR Projects", House of Commons Hansard Written Answers for December 1, 1997, [http://www.publications.parliament.uk/pa/cm199798/cmhansrd/vo971201/text/71201w09.htm#71201w09.html\\_sbhd0](http://www.publications.parliament.uk/pa/cm199798/cmhansrd/vo971201/text/71201w09.htm#71201w09.html_sbhd0).

<sup>524</sup> EUROSAM is the prime contractor for France' s and Italy' s Governments and is responsible for coordinating, subcontracting, managing and export marketing. It is composed by MBDA France, MBDA Italy and THALES. MBDA France has primary responsibility for the Aster 15 and Aster 30 missiles. These share the same kill vehicle, featuring the patented "PIF-PAF" dynamic control system, but differ by the size of their booster stage. Their maximum range varies from 30 km to 100 km. MBDA Italy is responsible for the fire control unit based on the EMPAR multi-function radar and the naval and ground-based vertical launcher systems. THALES (France) is responsible for the fire control unit based on the ARABEL multi-function radar; for more detailed information see [www.eurosam.com](http://www.eurosam.com).

<sup>525</sup> OCCAR Business Plan 2007, "FSAF Munitions for the PAAMS-The Next Generation of Surface-to Air Anti-Missile Systems", p. 15. The first class of the French variant of the SAAM system (SAAM/FR) has been installed on the

industrialization and qualification of the three systems, and the delivery of pre-series systems, that is still ongoing for SAMP/T. In order to create a less expensive but efficient system in comparison to the Patriot one, deep cuts should have to be undertaken on research and development costs. However, this was rendered more difficult by just aforementioned reasons, "every participating country wanted its defence industry to participate, but since the industrial capabilities and designers' skill and experience not always justified that, some parts have been duplicated, such as three types of fire-control radar used in the whole FSAF".<sup>526</sup>

The programme has been assigned to OCCAR in 2003, and encompasses its production and also common FSAF/PAAMS(Principal Anti Air Missile Systems) Aster munitions production plus initial In-Service Support of the system. The decision to procure munitions for both FSAF and PAAMS was taken on economic ground and with strong support by the UK, "taking the needs of both programmes into account in one single contract enable us to negotiate better Aster missile production prices".<sup>527</sup> In fact, the peculiarity of the programme is that there are similar or identical equipments for naval and land systems which therefore decrease development, production and In-Service Support costs.

PAAMS encompasses new weapon systems based on common elements developed in the frame of the FSAF Programme.<sup>528</sup> It is aimed at "self-defence, local area and naval area defence capabilities for the future frigates of the navies: the FR/IT Horizon Frigate(with the Italian EMPAR Radar) and the UK Type 45 Destroyer(with English radar SAMPSON)".<sup>529</sup> In particular for France, out-of-area airbases protection is of the paramount importance, because, as experts explain, on some occasions France finds itself to act alone(as in Africa) and with its own system it can be self-sufficient. In the PAAMS munitions procurement,

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French Air Carrier Charles De Gaulle for self-defence in 1999, while SAAM/IT on aircraft carrier Cavour. SAMP/T short-range land which was chosen together by Italy and France defends tactical important areas. The Italian Navy has chosen FSAF to ensure the defence of a new Italian Navy Major Unity(NUMM- Nuova Unità Maggiore della Marina). Differently from France, it employs EMPAR radar, designed and built by Alenia Marconi Systems.

<sup>526</sup> Michael Fiszer and Jerzy Gruszczyński "OCCAR Chooses SAMP/T", *The Journal of Electronic Defense*, January, 2004, [www.jedonline.com](http://www.jedonline.com).

<sup>527</sup> General Nazzareno Cardinali, 2005 b, p. 27.

<sup>528</sup> See OCCAR Business Plan 2007, p. 15.

<sup>529</sup> *Ibid.*

which has spurred relevant economies of scale, participates also the United Kingdom, “the idea has taken a little time to take ground but, quickly, the participant states have appreciated the possibility to pass to a unique contract for a huge number of missiles rather than to have separate acquisition procedures. The scale economies have triumphed on programmes rivalries”.<sup>530</sup> As mentioned above, not all the PAAMS Programme is integrated in OCCAR, but only the part regarding the procurement of munitions. While France and Italy did not oppose, at the beginning, a full integration of the programme in OCCAR the situation was different for the UK within which different positions persisted about the advantages of integration in the organization. Moreover, the Programme Office yet existing seemed to guarantee more control on the programme.

France and German cooperation on the production of TIGER helicopters started in 1988, for strategic and tactic support functions. The helicopter had to absolve multiple fighting tasks during the day and the night in all weather conditions. It was developed in two version, the UHT (Unterstützung Hubschrauber TIGER) for Germany and the HAP (Hélicoptère d’Appui Protection) for France with a contract with EUROCOPTER in 1999.<sup>531</sup> The difficult period France faced in the ‘90s with its defence production was felt also in this programme, “the production of reports of TIGER and NH90 helicopters put in danger our European industrial cooperation. In the same moment where the American offensive was stronger we give the impression of giving in. This is alarming and the workers of EUROCOPTER are right to demand to you explanations”.<sup>532</sup> In 2004 Spain showed its intention to participate in the Programme and to

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<sup>530</sup> Philippe Castellani, “OCCAR: un exemple pratique de la coopération européenne en matière de défense”, 2004, p. 6.

<sup>531</sup> The French HAP was designed for armed reconnaissance, ground suppression, light armour destruction and anti-helicopter tasks, while the German UHT(1993) was created to perform escort/scout missions. Before, Germany had another version of the UHT, the PAH2/HAC, which was thought to carry out anti-tank missions, given the risk coming from the East. In 1995, the two countries signed a Memorandum of Understanding for the preparation of production of the two versions of helicopters, and in 1998 another one for the production contract awarded to EUROCOPTER (80 UHT and 80 HAP).

<sup>532</sup> Philippe Madrelle « Séance du 19 Juin 1996 sur la loi de programmation militaire des années 1997-2002”, Sénat Français, <http://e.xtranet.senat.fr/seances/s199606/s19960619/sc19960619020.html>

develop and produce a new version of the helicopter (HAD-Helicoptero de Apoyo y Destruccion) which met also French requirement, so that it will be produced for both of them. This has entailed the signing of a trilateral Administrative Agreement and has seen the integration of the programme in OCCAR. Also in this case the procurement of the same system would have brought about huge savings, “for optimising the commonalities and reducing costs, all the version of the TIGER have been developed from a common ‘basic helicopter’ which corresponds to the vehicle development and to the basic avionics”.<sup>533</sup> The work-sharing among states foresaw also Spain’s compensation of the costs encountered by the other two countries for the creation of the basic system: in fact its HAD version derived from the original system. Due to national peculiar exigencies three version derived from the basic model are developed for the three states.

#### 4.13 New threats old problems

This section will highlight those programmes that seem perfectly tailored and envisaged for the new threats of the world scenario. While new challenges request a prompt answer, states continue to encounter their usual problems when trying to coordinate their actions in multinational programmes. From this point of view it can be said that the decision to confer OCCAR these programme has been of the utmost importance to speed up their development and production.

Of course, the integration of the FREMM programme in 2005 has been paramount for OCCAR, “France and Italy have decided to entrust OCCAR with a new Programme, FREMM (Multi- Mission Frigates), which is the second largest OCCAR Programme in budgetary terms and the first full naval Programme to be managed by OCCAR-EA”.<sup>534</sup>

Nevertheless, it should be remembered that integration in OCCAR came out of a long process of delays and disputes among France and Italy regarding funds and operative requirements that amended more times the original contract. First of all there were divergences related to the requirements the Frigate had to meet, with Italy preferring a bigger model while France opting for a lighter one. Asked about these controversies General Cardinali answered that none of them did

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<sup>533</sup> OCCAR, “TIGER-A New Generation of Helicopters”, *Programmes*, <http://www.occar-ea.org/view.php?nid=108>.

<sup>534</sup> General Nazzareno Cardinali, “Foreword”, OCCAR Business Plan 2006, Organization Conjointe de Coopération en Matière d’Armement , 2005b, p. 4.

prevail; instead “both of them” won, given that Italy will have the most sophisticated version while France the simplest one.<sup>535</sup> The contract awarded by OCCAR is one and envisions an Italian and a French version of the Frigate; the parts developed in common are produced according to competitive criteria (first among Italy and France and eventually encompassing other Member States); the parts distinguishing each version will be produced by the national industries(French and Italian).

The participation of Italy to the Programme has been uncertain until May 2006, when the main contract was amended to reshape the development and production of the frigates given Italian decision to join the Programme. Italian and French Minister of Defence gave birth to this cooperation in 2002 proceeding with feasibility studies; in 2004 a conjoint declaration stated that OCCAR had the vocation to assure the management of the Programme, being an observer from 2003. The FREMM programme has spurred a lot of discussions within the Italian political panorama: on the one hand it was said to represent a high level strategic and tactic programme, in line with Italian commitment to European development of interoperable and similar defence capabilities(Helsinki Headline Goals, Berlin Plus<sup>536</sup>). On the other hand, Italy was uncertain about the results of cooperation given its financial constraints. The legislative process was therefore difficult; the financing of the FREMM Programme was asked by the opposition party (the Left) in 2005 within the Competition Law Decree; a suppression of the financing was decided in the first part of 2006 and then it was reintroduced in the second half of 2006, through a harsh parliamentary fight. As it happens with a lot of international programmes, cooperation with France was strongly auspicated because a financial commitment to an international programme has less chances of being reduced or totally eliminated; international cooperation, therefore, is a strategy to obtain and keep assured funds for a programme.

Italy wanted to be sure that given the huge expenses it had to face in a moment of meagre resources it could get an adequate return out of the project, meaning that the cooperation arrangement should have been rewarding enough to make up for the financial effort. Notwithstanding

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<sup>535</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

<sup>536</sup> Aside from their normal duties, these Frigates will be fundamental for anti-terrorism duties in the Mediterranean and therefore to give Italian contribution to international peace missions.

all the challenges encountered, the Italian political environment understood that the programme was essential for the modernization of the navy and vital for the national naval industry. Those in favour of the programme asserted that “naval units foreseen in the FREMM Programme are characterized by high technological components with positive spin-offs not only for the Italian naval industry but also for the development of the electronic, radar communication, armaments and engine systems, and with positive spin-offs also for the civil and not only the military industry. The orders will foster an excellence production assuring stability and occupational continuity for a relevant number of workers for a long time”.<sup>537</sup> Therefore, the final agreement reached by France and Italy was one that satisfied all Italian requirements and that weighted the potential consequences of a lack of the necessary investments to start the programme: in this case the alternative for Italy would have been to withdraw from the programme and let France produce alone the Frigate, loosing in this way its relative competitiveness. Moreover, Italian credibility in cooperative efforts would have been reduced given the yet withdrawal from the A400M programme. Finally, Italy would have lost jobs. Instead, such a high technological investment would have increased Italian competitiveness in international markets while assuring occupation.

FREMM programme is defined by OCCAR as “the most ambitious and innovative European naval defence project” and is aimed at fulfilling the new requirement of a changing environment for the Italian and French navies.<sup>538</sup> According to the BoS and to the Programme Board decision, OCCAR should manage the development, production and initial In- Service Support of this Programme, estimated 11,000M of euros in 2005 and 11,116M euros in 2006. The total of navies to be procured is 27, 17 of them for France and 10 for Italy. These ships will have three version: anti-submarine warfare(ASM/ASW), land attack(AVT) and general purpose (GP). First delivery of the ASW frigate is established for 2011, while all the other are envisaged for 2021. Programme Divisions are now set in Rome and in Paris, a way this one to re-affirm the balance existing in this programme. The balance is not

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<sup>537</sup> Lorenzo Forcieri to the Prime Minister, 14<sup>o</sup> Legislature, Session n<sup>o</sup> 964 , Act n<sup>o</sup> 4-10257, published the 7<sup>th</sup> March 2006. <http://www.senato.it/japp/bgt/showdoc/showText?tipodoc=Sindisp&leg=14&id=182039>.

<sup>538</sup> OCCAR Business Plan 2007, “FREMM-The Future Multi-Mission Frigates”, p. 14.



of course in terms of take-offs, that as seen are different for the two countries, but suggests instead that no state has the leadership on the programme. This is also illustrated by the industries going to produce the frigates: ARMARIS(DCN, Thales -France) and ORIZZONTE S.N. (Finmeccanica- Italy) that in any case cooperate in the production of common parts.

BOXER, a multi-role armoured vehicle, is together with the A400M and FREMM, a programme that better mirrors OCCAR' s aims and vision. First of all, it is a flexible weapon deployable in different contexts, in line with new environments, "the concept of a drive module and an exchangeable mission module makes it a flexible military vehicle for a large range of assignments, providing the highest protection of his class".<sup>539</sup> Moreover, this vehicle can be transported by the A400M in crisis areas(out of area missions) and is fit to work both in high intensity conflicts and in rapid reaction peace support and humanitarian operations. It is provided with protection against mines and an adjustable modular armour that grant protection of the soldiers from threats. For these reasons, it is visibly superior to other available weapons. This conclusion is clearly stated in the programme presentation in 2007 Business Plan: "the programme represents a major collaboration between Germany and the Netherlands, which will bring great operational benefits including interoperability with the armies, as well as financial savings. Sharing of development costs, technologies and economies of scale in production are just three of the major attractions and benefits of this collaboration".<sup>540</sup> In the same vein, the programme is deemed of the paramount importance for the development of industrial capabilities, "the BOXER Programme strengthens the links between the partner nations and industries and is expected to provide a springboard for the development of a more cohesive and competitive European defence industry in this sector".<sup>541</sup> OCCAR is engaged in the development and production phase of this Programme and has signed a contract with ARTEC GmbH(2004) - which is a Consortium between a German and a Dutch enterprises- that

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<sup>539</sup> OCCAR, "BOXER-A Multi Role Armoured Vehicle", *Programmes*, <http://www.occar-ea.org/view.php?nid=76>. Different variants of BOXER will be developed and qualified to cover operational need: Armoured Personnel carrier, Command Post, Ambulance, Battle Damage Repair and Cargo vehicle. The Programme Division was established in the late 2000.

<sup>540</sup> *Ibid.*

<sup>541</sup> ARTEC, "BOXER-The New Generation of Armoured Utility Vehicles", <http://www.artec-boxer.com/>.

entails the production of 272 vehicles for Germany and 200 for the Netherlands for 2009, given that the vehicle is deemed as urgent to states' needs.<sup>542</sup> The Netherlands entered the programme in 2001 because this latter could have satisfied the basic requirements for its vehicles, but also because this was an opportunity to penetrate OCCAR procurement agency.<sup>543</sup> All that said, it is fair to stress that the United Kingdom was a participant in the Programme but, due to changes in its national requirements, the UK and its industry(which followed the decision of the MoD) withdrew from the programme. The remaining states had to adjust the arrangements in a bilateral way according to technical, practical and work-sharing criteria. In particular, agreements exist among the German and Dutch industry that balance the work-share through off-sets.

The reasons of the UK' s withdrawal are not to be found in OCCAR' s poor performances; instead the organization was performing pretty soundly its procurement tasks. The fact is that the UK started to question the significance of this vehicle. In July 2003, the UK Ministry of Defence stated that the MoD required a lighter and more easily deployable vehicle albeit able to protect the soldiers. The requisites called for were very ambitious and, as it was assessed later on, impossible to achieve. Nevertheless, for the UK BOXER was considered too heavy a vehicle and therefore it decided for a national path through the development of the Future Rapid Effect System (FRES).<sup>544</sup> This decision came after that, in the 2002 presentation by ARTEC of the first German prototype, the UK Minister for Defence Procurement argued that "BOXER was a good example of European engineering excellence, offering a vehicle concept with which the armed forces and industry should be proud to be associated".<sup>545</sup> The Minister went on by saying

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<sup>542</sup> ARTEC GmbH is a consortium formed by Kraus-Maffei Wegmann (GE 36%), Rheinmetall Landsysteme (GE 14%) and Stork (NL 50%). The British participating industry was Alvis Vickers. The contract was signed in 2004 and the production phase started in 2006. After this date, ARTEC proposed an offer to OCCAR for the first production of 400 vehicles in 2005, but it was rejected because it did not meet requirement costs. Germany will have 272 vehicles and the Netherlands 200.

<sup>543</sup> Ted Hooton, "FRES Knocks Out Boxer: British Army Reviews AFV Programmes", *Military Technology* 8-9, 2003, p. 59.

<sup>544</sup> "BOXER MRV Wheeled Multi-Role armoured Vehicle", [www.army-technology.com / projects / mrav](http://www.army-technology.com/projects/mrav). MRV (Multi-Role Armoured Vehicle) was the name of the programme in the United Kingdom.

<sup>545</sup> "BOXER Prototype Presented", *Military Technology* 12, 2002, p. 62.

that European cooperation was important in order to meet UK' s needs and the BOXER Programme represented one of these cooperations. English withdrawal has inevitably implied delays as well as huge costs for the nation, that, according to OCCAR' s rules, had to uphold the burden of adjustments and termination expenditures. These provisions have permitted to carry forward the programme even without a fundamental partner by making it support the total costs of adaptation, "it is worth emphasizing that, prior to the advent of OCCAR, a withdrawal of this type (the UK had a share of the 33% of the Programme) would have normally led to the collapse of the programme or, if not, to much greater levels of disruption than will now be the case for BOXER".<sup>546</sup> This is another proof of OCCAR' s support for cooperation through mechanisms to disincentive defection. In particular, states' decision to insert in OCCAR provisions for mitigating the shortfalls produced by an abrupt withdrawal or a likely event is another example of their willingness to go on with cooperation and punish detrimental behaviours. Nevertheless, this rules seems not to impede states to pursue their interests if their power capabilities permits it, as it happened with the United Kingdom. According to some pundits, the English decision went against the interest of common European equipments and needs, "though European Defence Agency(EDA) head Nick Witney has made 'reducing the number of national infantry fighting vehicles from 22 to 12' one of the EU 's Top 5

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<sup>546</sup> General Nazzareno Cardinali, 2005 b, p. 27. General Cardinali maintains that the UK has paid huge adjustment costs for its withdrawal decision. On the same vein is the argument put forward by Laurent Giovachini, which states that even for the A400M programme special arrangements are taken in order to correct potential disruptions, delays and burdensome adjustment costs, "not only do the customers commit in one step to both the development and their full production batch, but if one of them wants to reduce its order, an explicit financial mechanism is in place to make sure that there will be no adverse impact for industry or for the other customers", see Laurent Giovachini, "Can European Co-operation Deliver Competitive, Cutting-edge defence Equipment?", *RUSI Defence Systems*, June, 2007, p. 44. It is noteworthy to observe that BOXER was borne as a cooperative programme among the UK and Germany in 1999 and assigned to OCCAR in 2000, and therefore the UK was one of the two states needing a new vehicle with specific capabilities. The Netherlands joined the Programme in 2001, and together the nations did managed a trilateral contract. The UK developed even four prototypes which were nevertheless used by the other states for the qualification process.

defence priorities, his own government initially followed a very different script”<sup>547</sup>.

Nowadays the experience in Iraq and Afghanistan has made clear the necessity for a revision of the English vehicle (FRES). Iraq war has stressed the importance that protection has on the ground, a protection that is guaranteed only by an heavy vehicle. In fact, the MoD seems to reveal its interest for the BOXER programme and to evaluate its acquisition off-the-shelf for its infantry among two other alternative systems. This has spurred strong criticisms and accusations to the MoD for having used a lot of money on the FRES programme, but the Defence Department was ready to reply that, “the Boxer was a programme the MoD pulled out of when it was known as the MRAV programme. We took that decision in 2002 in light of the requirement at the time. We have since reviewed the FRES requirement in light of recent operational experience in Iraq and Afghanistan. Force protection in theatre now has a higher priority than strategic deployability – I don't think anyone would argue with that view. When the situation changes our procurement process must be capable of responding to that change..... I'm not going to go into the details of the protection FRES will have in a public forum.... But to suggest that ignoring the threats we face in Iraq and Afghanistan today when we set the requirement for our future vehicles is wrong.”<sup>548</sup>

The UK' s exit from the BOXER Programme shows how difficult it is for states to pursue a cooperative pattern when a national one would protect fundamental interests: this means neither that the national path is the best strategy nor that defection is more rewarding. Indeed the planned order of 3500 vehicles would have provided important economic, technological and industrial returns in addition to an added interoperability among participating states. Given all the adjustment costs that the UK has incurred, it is hard to appraise whether the national programme has brought about a better ‘value for money’ trade-off, especially if the UK will end up acquiring the BOXER off-the-shelf. Moreover, the redefinition of British requirements aside from a cooperative European path does not fit the objective of coordinating a common European defence policy; as an expert affirms “there are many reasons for setbacks: national conceptional plannings changed

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<sup>547</sup> “The UK's FRES Transformational Armoured Vehicles”, *Defense Industry Daily*, October 11, 2007. [http:// www.defenseindustrydaily.com/uk-issues-several-fres-transformational-armored-vehicle-contracts-01130/](http://www.defenseindustrydaily.com/uk-issues-several-fres-transformational-armored-vehicle-contracts-01130/) .

<sup>548</sup> *Ibid.*

over time and finance-plans changed after years caused by budget-restrictions, and resulted in shiftings which could no longer be harmonized or in cutting of projects in one or more nations. There are even examples for intentionally changed military requirements in order to bail out of a cooperation-program for the benefit of a national development and production projects, just to save national capacities and jobs”<sup>549</sup>.

It has always been English approach to participate in structures with ‘opting-out possibilities’:<sup>550</sup> because of them a state can still coordinate actions with other States when it deems it to be in its interest, and decide not to be engaged in other situations. Nevertheless, when a state commits with a huge amount of orders so that other states become dependent on its participation the risk of an eventual disruption are high: a state that because of its power cannot be prevented from behaving in a damaging way should at least be punished accordingly. For the importance of the A400M aircraft Programme a more detailed and separate analysis will be undergone later on in this research.

	<b>PARTICIPATING STATES</b>	<b>PROGRAMME COST</b>	<b>TOTAL PRODUCTION</b>	<b>DELIVERY</b>
<b>A400M</b>	Belgium, France Germany, Luxembourg Spain, Turkey, United Kingdom <u>PLUS:</u> South Africa, Malaysia	20,330M• - Development, Production and Initial Support	180 + 12 - (7+50+60+1+27+ 10+25) + (8+4)	First delivery: end of 2009 Last delivery: 2021
<b>BOXER</b>	The Netherlands, Germany	1,419M• - Development	472 –	First delivery to

<sup>549</sup> Brigadier General Peter Kuhn, “Germany’s International Cooperation for Army Equipment and technology”, *Military Technology*, Special Issue, 2002, p. 38.

<sup>550</sup> Cooperation may arise also in some of the trickiest occasions if specific ‘guarantees’ exist. The coordination game is said to be the less demanding game in the “game theory” literature, in terms of commitments given that there is not an incentive to defection. Once achieved the Pareto-frontier, which in our case can be represented by OCCAR a state can use its power for opting out (possibility to go it alone), producing the twofold consequence of delaying the programme and compelling a rearrangement of the coordination point (rearrangement of the point between Germany and the Netherlands).

		and Production	(200+272)	Germany: 2009 First delivery to the Netherlan ds: 2011
<b>COBRA</b>	France, Germany, United Kingdom	623M• - Industrializati on& Production, In Service (IS phase under review, possible changes)	29 – (10+10(+2)+7)	Delivered to France: 10 Delivered to Germany: 10 +2 for Turkey Delivered to the UK: 7 Last delivery: 2007
<b>FREMM</b>	France, Italy	11,116M• - Development & Production	27 – (17+10)	First delivery: 2010 Last delivery: 2022
<b>FSAF</b> <b>PAAMS</b>	France, Italy  France, Italy, UK	2,646M• (Phase 3)- Development & Production 540M• – Development & Production	1 SAAM/FR 1 SAAM/IT 18 SAMP/T– (12+6)	SAAM/FR and SAAM/IT: Delivered SAMP/T: in productio n
<b>ROLAN D</b>	Germany, France	21M• - Bilateral In- Service Support, French ROLAND Operation Life Extension. NOW: discontinued	Outside OCCAR	Disposal

<b>TIGER</b>	France, Germany, Spain	4,522M• - Development, production, initial In- Service Support (possible changes)	184 – Fr: 40 HAP+40 HAD Ge: 80 UHT Sp: 24 HAD	HAP delivery: 2005-2010 UHT delivery: 2005-2011 HAD delivery: 2010-2015
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Table 1: State-of-the Art of OCCAR' s Programmes: Participating States, Programme Costs, Total Production, Delivery. Source: OCCAR Business Plan 2007 and OCCAR Presentation to the Defence Commission of the Italian Senate by General Nazzareno Cardinali, Rome, 29<sup>th</sup> May 2007.

#### 4.14 OCCAR' s relations with EDA (European Defence Agency)

As stated in Article 8 of the Convention, among OCCAR' s aspirations there is that of absolving ulterior functions to those yet put in practice. Member states could, potentially, assign to OCCAR the task of “preparing common technical specifications for the development and procurement of jointly defined equipment or of coordinating and planning joint research activities and studies of technical solutions to meet future operational requirements”.<sup>551</sup> What this sentence reminds to is the contribution that OCCAR could give to the harmonization of operational requirements so as to pave the way for a common European defence approach and an improved European Defence Base, “the litmus test of OCCAR, and of its members’ willingness and preparedness to pool their defence procurement activities, would come with a conceivable future move to bring under it not only programme management but also what arguably is the most sensitive part of any project for the development and acquisition of defence material—namely, the formulation of the operational requirements”.<sup>552</sup> In this sense, the possibility to harmonize requirements within OCCAR would depend on the trust and interests of Member States in creating a concrete step to a real common defence might through an institutionalized pattern, “it is of course possible that through OCCAR,

<sup>551</sup> OCCAR Convention, Chapter II.

<sup>552</sup> Ezio Bonsignore, « Too Much of a Good Thing ? », Military Technology 10, 1998, p. 4.

Member States, may change the way they look at opportunities for collaboration”.<sup>553</sup>

OCCAR's existence out of a European scheme of cooperation is therefore dependent on the political will of the actors. The eagerness to speed up decisions and agree on further cooperative steps can therefore wax and wane according to states' interest. The structure the states have conferred to the organization permits for this reason to hamper and block a more thorough coordination path. Within these limits, the agency has a very proactive role to play: by improving its procurement strategy it can catch the interest of the actors willing to face declining budgets and aiming at improving European defence cooperation. Also, it is apparent that the participation in an organization is likely to bring about a sharing of information and increase channels of communications among Member States: this does not imply that states will change their mind regarding their own preferences but that they come at least to know each other's positions and open up possible rooms for fine-tuning. Common procurement procedures are finally known to bring about significant results and ease otherwise complex processes: on this point of view OCCAR is a huge move forward in respect of other *ad hoc* agencies. Its restricted partnership eases the negotiation and decision-making processes.

It is fair to say that some expected OCCAR to play more encompassing functions than those played to-date. Of course, the first programmes integrated did not permit to demonstrate the organization's potentialities given that they existed yet outside of the OCCAR framework, were in an advanced stage of their life-cycles and did work according to the *juste retour* principle. Nevertheless, as General Cardinali points out, those programmes conferred reliability to a neonate organization and permitted it to survive the first difficult phases of its settlement.<sup>554</sup> Its future development could have been therefore paramount in order to see the direction OCCAR was driving at.

On this aspect General Cardinali stresses that sadly not all the objectives of the Convention have been met. In fact, the organization has developed especially the “management” side of its initial ambitions, while it has not made enough steps forward in the promotion of prime contractors or in the harmonization of operational

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<sup>553</sup> OCCAR, Frequently Asked Questions.

<sup>554</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.



requirements among states.<sup>555</sup> Likewise, Denis Ranque points out that “these elements of OCCAR’ s original remit have not yet been fully implemented, perhaps because of a wish on the part of the member countries to concentrate in the first instance on building up the organization’s skills and success record in acquisition. Whatever the reason, this approach has had the effect of restricting what should have been the organization’s normal growth and influence”.<sup>556</sup>

What said cannot be fully understood without introducing in the debate another actor emerged in the European context: the European Defence Agency (EDA). While the creation of EDA in 2004 was welcome by OCCAR, it inevitably imposed a rethinking of the organization’ s perspective, activities, and relevance. Before EDA’ s creation and as appreciated above, lots of articles stressed the “harmonization” role that OCCAR could have achieved on states’ definition of operational requirements as one of its fundamental objectives to go ahead with a sound cooperation process, “as for future planning it is foreseen that it engages essentially to harmonize medium-term operational requirements, including common investment policy in the technological research sector”.<sup>557</sup>

Thus far, the ‘harmonization’ process has been defined as a task to be accomplished by EDA at the European level: some overlapping therefore does exist among the two organizations, “OCCAR Convention and Joint Action of EDA are formulated in a similar or sometimes identical shape; therefore some functions seem similar or identical”.<sup>558</sup> The debate around OCCAR’ s nature and future showed all the concerns of those, as the French, who strongly pushed the case for this organization “we can see that there is a lot of overlapping and therefore, when EDA was established, many people wondered whether OCCAR still had a role in the European defence landscape. I can tell you that I firmly believe that OCCAR has a very important role...’improving efficiency and reducing costs of armaments cooperation’, ‘developing new programme management methods’ and ‘making procedures for the granting of contracts more effective’. As a

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<sup>555</sup> *Ibid.* The Director specifies that the creation of prime contractors depends in the first instance on states and industrial incentives, while for the harmonization of requirements states have the command and EDA the duty to pursue it.

<sup>556</sup> Denis Ranque, “OCCAR’s Role in European Armaments Cooperation”, *Military Technology* 28, 2004, p. 50.

<sup>557</sup> Michele Nones, Stefania Di Paola and Sandro Ruggeri, 2003, p. 16.

<sup>558</sup> OCCAR presentation to the Civil School of Defence, 2005, p. 57.

consequence, the original scope of OCCAR was narrowed down and the more ‘political’ aims were left to the initiative of the Nations and of EDA”.<sup>559</sup>

As appreciated, EDA is an intergovernmental organization within the European Second Pillar of the Common Security and Defence Policy, and comprises a much broader base and much broader aims than OCCAR does, encompassing states with different capabilities and therefore interests and sometimes different views about the exigencies of a common European defence. The need arises therefore to find synergies among the two organizations but also to define the border of each other’s activities.

More precisely, given that OCCAR aims at contributing positively to the delineation of a common defence it should find its place within EDA, by improving its procurement performances and most importantly by managing more and more programmes.

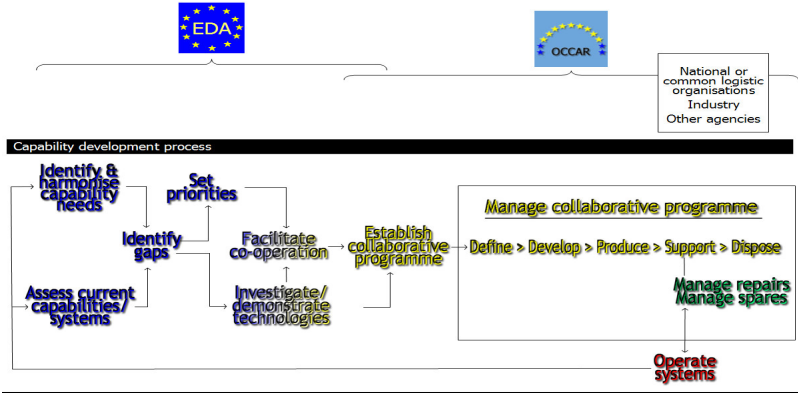


Figure 14: Place of OCCAR in the European capability development process. Source: OCCAR Strategic Paper, OCCAR Corporate Strategy, p. 5.

Analysing the relationship that could exist among OCCAR and EDA is paramount in order to assess the possibility for them to contribute to each other’s works and development.

OCCAR can provide EDA with an operative and proved procurement agency with efficient management performances; with a set of

<sup>559</sup> General Nazzareno Cardinali, “Armament: Which Technologies for which Defence?”, 2007b, p. 12.

contractual procedures, a flexible geometry for participation in and integration of the programmes, and an ability to establish new projects and team-works in a short time-span.<sup>560</sup> EDA should lead all the process getting toward common procurement by identifying and harmonising capabilities needs and by assessing current capabilities systems, promoting a unified armament market and consolidating the European Defence Technological Base. Once having defined the demand for capabilities and their available supply, EDA should discover existing gaps. The next step would be to establishing priorities and proving and assessing technologies in order to promote cooperative programmes.<sup>561</sup> According to General Cardinali, EDA should engage in defining operational requirements and ease the creation of programmes in cooperation while encompassing all European Nations (except from Denmark): it should drive toward the definition of a European “exigency” and even a small European state recognizes a “European defence” need: even a small state therefore should take part in the process of requirement definition and contribute financially to support the capability EDA is aiming at creating: this is the reason why the ‘harmonization’ aim should be performed within EDA. Therefore, while OCCAR should carry out the management work, EDA should create the basis for cooperation in the first hand by helping to harmonise operational requirements among states.

Members of OCCAR have never gone ahead with these objectives and this can be interpreted as a missed opportunity given the restricted membership. More far away seems to be the “coordination of national decisions concerning the common industrial base and common technologies”.<sup>562</sup> Notwithstanding that, the probability of these blueprints to be reached within EDA looks gloomy. The process is not likely to be that straightforward, since the broad and significantly disparate base EDA is made of risks re-proposing all the shortfalls that have characterized precedent Defence Institutions, “now that most of

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<sup>560</sup> OCCAR Presentation to the Civil School of Defence 2005, p. 61. OCCAR recognizes the necessity to establish a clear and fruitful dialogue with EDA, ESA(European Space Agency) and NATO Maintenance and Supply Agency(NAMSA- which can carry forward In Service-Support functions). It is clear that more coordination with all these structures will improve the whole procurement process, but seems difficult to be obtained.

<sup>561</sup> OCCAR Strategy Paper, “OCCAR Corporate Strategy”, Section 4.

<sup>562</sup> OCCAR Convention, Chapter II.

the WEU' s functions have been transferred to the EU, the armaments group is even less likely to achieve anything".<sup>563</sup>

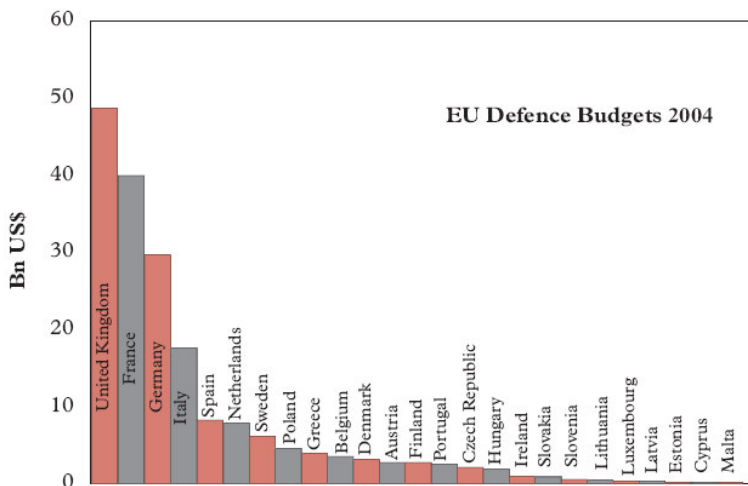


Figure 15. EU Defence Budgets 2004. Source: House of Lords, “European Defence Agency. Report with Evidence”, 9<sup>th</sup> Report of Session 2004-2005, European Union Committee, 16 March 2005, [http:// www. publications.parliament.uk /pa /ld200405 /ldselect/ldeucom/76/76.pdf](http://www.publications.parliament.uk/pa/ld200405/ldselect/ldeucom/76/76.pdf) . The figure shows the great discrepancy that exists in defence expenditures ( in Dollars terms) among European States.

This of course does not mean that in the case of an EDA impasse OCCAR would fall down on a stalemate, since it can go it alone with the activities that Member States would confer it outside of a European path.<sup>564</sup> From this point of view, OCCAR can even represent a faster-track through which cooperation is eased whenever consent is not achievable in a broader context; in fact this is the reason it was envisaged in the first hand by France and Germany.

According to General Cardinali, there is no discrepancy between a broad definition of a capability (by EDA) and its eventual actuation by few states (through OCCAR). Nevertheless, it is probable that the states with major military capabilities are those likely to influence more the definition of European capabilities within EDA. Moreover, the

<sup>563</sup> Daniel Keohane, 2002, p. 32.

<sup>564</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

participation of new and essentially Eastern States in the European context is seen, according to some pundits, to hamper the deepening of the European Defence Industrial Base: some of them have strong relationships with the Atlantic Ally and in most of the occasions search protection under the NATO umbrella. For this reason, they end up buying American off-the-shelf weapon systems.

As for the possibility that OCCAR be integrated into EDA, it is noteworthy to observe that a certain discretion exists among OCCAR's states: given the small number of participants it is obvious that coordination is more straightforward, "a quick integration between OCCAR and EDA is of course welcome but the OCCAR members conserve a certain prudence on this issue, because it is much more easier to take decision and assume common position now than if members are 24".<sup>565</sup> If OCCAR does not want to be eclipsed by EDA it should result as the best choice in the field of cooperative procurement: in fact, one of OCCAR's actual work is that of arranging its position towards EDA and of finding fruitful complementarities among the two organizations. But it seems clear that every achievement in this direction depends on national states and the way they would like to mould it, "it is an agency for armaments procurement, once these have been showed as the needs of the states. It does anything else but manage their willingness".<sup>566</sup>

#### **4.15 A400M**

The section below will deal with the most important Programme managed by OCCAR: the A400M transport military aircraft. Some of the procurement procedures applied to it, its broad partnership as well as its relevance for the Common European Defence make necessary an in-depth scrutiny of the Programme. Analysing the reasons spurring its birth, the stages of its development and the final integration into OCCAR will shed a light on a continuous pattern of coordination but also on setbacks, where states have searched to arrange their common and partly divergent positions.

A400M aircraft has been thought principally to enhance Europe's airlift capabilities. This military aircraft is able to perform strategic

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<sup>565</sup> Commission de la Défense Nationale et des Forces Armées, *Audition du Général Nazzareno Cardinali, Directeur de l'Organisation conjointe de Coopération en matière d'Armement*, 2005.

<sup>566</sup> OCCAR Frequently Asked Questions.

operations (because of a long-range, a large capacity and a high cruise speed), tactical missions (soft-field performances, autonomous ground operations, low speed/low level operations, aerial delivery) and “in-theatre” tanking operations (get and provide fuel).<sup>567</sup> Being able to perform different tasks it is deemed of the paramount importance in order to provide a military substance to the broader European Declarations delivered in these years. Given the complexity of future scenarios and given the willingness expressed by European states to play an active role in risks reduction and stabilization of trouble-spots, this aircraft permits to reach out-of-area contexts and carry the future ‘European Reaction Force’ together with other important weapon systems on hostile grounds.

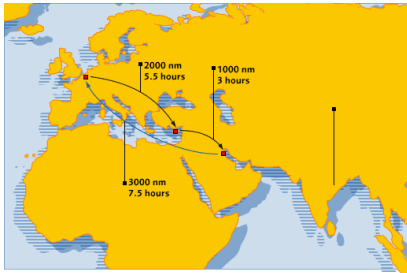
The independence in airlift, transport and projection this aircraft would bring about from the Atlantic ally adds to the significance of the programme, “the geostrategic evolution with a multiplication of regional crises, the priority conferred to the need to project forces and the role our state wants to play in the international context are arguments in favour of a strong transport aircraft”.<sup>568</sup> Notwithstanding American weapons, “Europeans may be willing to take the technological risk and accept delay or a higher price for capabilities that are manifestly European, thereby sustaining their own industrial and technological base and serving political goals that are shared more evenly within Europe than across the Atlantic”.<sup>569</sup> It is for all these reasons that this programme strikes a remarkable turning-point in European but also Transatlantic Relations, and States’ decision to participate in it will be analysed also within this interpretative category.

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<sup>567</sup> For a detailed illustration of the functions and the features of the aircraft see <http://www.eads.com/1024/en/businet/miltrair/miltrair.html>.

<sup>568</sup> Francois Beck, Général de division aérienne, « Disposer de la capacité de projection des forces » *Défense Nationale*, Avril 18, 2001, p. 64.

<sup>569</sup> CSIS Commission on Transatlantic Security, “The Future of the Transatlantic Defence Community”, *CSIS Panel Report*, Center for Strategic and International Studies, Washington DC, January, 2003, p. 49.



**A400M Logistic Scenario**

■ Distance	3000 nm
■ Duration	15 days
■ Fleet	50 A400Ms
■ Transported	17 000 t: supplies & eqp
■ Conducted	7200 personnel
	620 sorties
	air-to-air refuelling

Figure 16. Rapid Reaction Force Deployment Scenario. Source: EADS, “Typical Missions”, [http://www.eads.net/1024/en/businet/miltrair/a400m/typical\\_missions.html](http://www.eads.net/1024/en/businet/miltrair/a400m/typical_missions.html)



**A400M Humanitarian Aid Scenario**

■ Distance	8900 nm
■ Duration	12 days
■ Fleet	20 A400Ms
■ Transported	helicopters, aid supplies
■ Conducted	air dropping
	casualty evacuation

Figure 17. Humanitarian Aid Scenario. Source, EADS, “Typical Missions”, [http://www.eads.net/1024/en/businet/miltrair/a400m/typical\\_missions.html](http://www.eads.net/1024/en/businet/miltrair/a400m/typical_missions.html)

As it often happens in cooperative issues, while the need to coordinate actions is indispensable to obviate non attainable unilateral paths, concrete deeds are taken only when the decision to collaborate cannot be postponed any longer. In the case under study, the need to refurbish an aging defence system was there from the '80s, but only real and pressing contingencies speeded up agreements regarding the programme. As the Defence Ministries of the seven countries involved have emphasized, situations as those in Kosovo, East Timor and Mozambique plus the Balkan and Middle East turmoils underlined the need for interoperability among European States and for a own long-reach airlift, “the Persian Gulf war and operations in Bosnia as well as the new post-cold war emphasis on peacekeeping and humanitarian aid missions, have highlighted the need for long-range transports that can operate from short runways at improved airfields”.<sup>570</sup> In these out-of-area operations a Rapid Reaction Force together with the equipments needed to take forward its work had to be deployed: therefore the need for a rapid airlift capability with a huge payload and accomplishing both a strategic and tactical missions. Given the limited budget of the European states, the aircraft had also to be affordable and

<sup>570</sup> John D. Morrocco, “Europe Struggles to Fill Airlift Capability”, *Aviation Week & Space Technology* 148, 19, 1998, p. 68.

sustainable, “commonality of design bringing reduced operating and support costs would add weight to the need for air forces to reduce ever-expanding budgets”.<sup>571</sup>

If Europe aims at meeting its military aspirations and at creating forces to reduce risks of disruptions, it has to have operative capabilities, “willingness is widespread, now it is necessary to concretize it”.<sup>572</sup> The idea behind this statement is of course the understanding that a truly European defence policy with defined missions needs first of all coordination on armaments procurement. This aircraft strikes an effective point on this matter, “there is much more to the FLA(Future Large Aircraft, previous A400M name) Programme than airlifting personnel and materiel from point A to point B and the politicians have based their decisions on this perception, which can be shared to a quite significant extent”.<sup>573</sup> All these considerations lead to affirm and underline the political aside from the economic rationale of this programme. In fact, the breakdown of the A400M would have immediately put in doubt European ability to live up to its aspiration, and in particular that of establishing an effective European Rapid Reaction Force as stated in the European Summits.

Given its long life, the stalemates and the uncertainties exposed by national states, the final agreement on the development of the A400M was interpreted as the European willingness to go ahead with a common defence policy. Even within the NATO context the decision regarding the A400M was intended as a move by European states to balance the burden of the alliance and a possibility to intervene in out-of-area conflicts. As for the relationship with the United States, the Programme was interpreted as a “test of European nations’ commitment to catching up with US military capability and strategic airlift”.<sup>574</sup>

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<sup>571</sup> « Airbus A400M-Europe’s Unbuilt Freighter, *Aviation News Magazine*, 2002, [www.aviation-news.co.uk / a400m.html](http://www.aviation-news.co.uk/a400m.html).

<sup>572</sup> Jean-Paul Béchat, “L’Europe de la Défense”, 2001, p. 24.

<sup>573</sup> Ezio Bonsignore, “From Pork Barrels to European Worries”, *Military Technology* 7, 2000, p. 2. Future Large Aircraft was the name conferred to the Programme before tenders started proposing their models. When Airbus Military proposed the A400M aircraft, then this was the name taken by the programme.

<sup>574</sup> Philip Butterworth-Hayes, “A400M: Symbol of European Commitment”, *Aerospace America*, April, 2002. [http:// www.aiaa.org/ aerospace/ Article.cfm?issuetocid=191&ArchiveIssueID=25](http://www.aiaa.org/aerospace/Article.cfm?issuetocid=191&ArchiveIssueID=25)



In 2001, speaking of the harmonisation process, experts and politicians maintained that A400M was a kind of exception among other weapon-systems, “the A400M programme is highly symbolic of both European countries redirecting their military capabilities for out-of-area missions, and of efforts at establishing schemes for joint European defence procurement”,<sup>575</sup> and the same feeling was expressed by the President of Airbus Military, which, after the Franco-German Commitment to the aircraft declared that “these decisions are a clear endorsement that the A400M fulfils precisely the requirements of the seven-nation European Staff Requirement (ESR). It leads the way to true European fleet interoperability via common procurement policy”.<sup>576</sup>

#### 4.15.1 A400M history: setting the stage for cooperation

Analysing the history behind this programme is a necessary step to undertake, since it fully shows the difficulties entailed in coordinating more states’ preferences and in making up different positions. This process uncovers also the potential positive benefits of cooperation in such a huge weapon system, both in economic and strategic terms. Motivated by the willingness to renovate their transport capabilities and to standardize the European fleet for strategic and tactic transport Germany, Belgium, France, Spain, the United Kingdom, Italy, Portugal and Turkey decided to join together and proposed a European Staff Requirement(ESR) trying to compose all their requirements for the aircraft to be procured. The aim at pooling their requests collectively was to explore a way to mitigate each others’ positions and find rooms

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<sup>575</sup> « European Defence Capability and Capacity Needs : a Long –Term Vision”, *Military Technology*, 12, 2006, p. 17.

<sup>576</sup> Airbus Military « French and German Governments select A400M as their Future Military Transport Aircraft », *Airbus Military Press Releases*, June 9 (2000), [www.airbusmilitary.com/pressrelease.html](http://www.airbusmilitary.com/pressrelease.html). The faith in the programme as well as the big stake that both France and Germany assigned to it is mirrored in today disputes around the decision of NAMSAs, the NATO Maintenance and Supply Agency to manage a deal to acquire C-17s, for the alliance airlift needs. France and Germany are strongly opposed to this deal officially for procedural reasons, affirming that it is not in NAMSAs power to act as a procurement agency, but more realistically to protect their industrial interests as for the A400M. France and Germany have been able till now to block the deal because members of the NAMSAs board, for more detail see Robert Wall and Douglas Barrie, “Herculean Labor”, *Aviation Week and Space Technology* 166, 9, 2007, p. 87.

for coordination in the setting of a basic common model, “the strategic self-sufficiency in the long-distance transport is a French concern, but also of our European neighbours. The search for interoperability and for cooperation at the European level are therefore completely relevant within the domain of military transport aircraft.”<sup>577</sup>

The importance of producing a weapon-system instead of acquiring it off-the-shelf are self-evident: of course buying the finite product may decrease costs and risks linked to procurement but means also to rely on other industries, to depend on other countries for the supply of the system, to lack a logistic support, to do not have the possibility to modify the system or to make the national industry participate. Production means risks but also the development of the national industrial capabilities.<sup>578</sup>

A400M was known in the past as the Future Large Aircraft (FLA) and encouraged the first discussions within the IEPG (Independent European Programme Group) in 1984. Later on a group of industries called the European Future Large Aircraft Group (EUROFlag), and charged with the pre-feasibility studies, was set in Rome and comprised Aerospatiale(France), Alenia (Italy), BaE(UK), CASA(Spain) and Deutsche Airbus(Germany), joined afterwards by Belgium, Portugal and Thailand’s defence industries. From the very beginning of the studies prepared, these industries exposed different views on the management and industrial work-sharing of the programme.<sup>579</sup> The aim of these discussions was to create an aircraft able to substitute from year 2000 the existing medium/long range transport aircrafts in the hands of the European states. Given the fluidity of the international landscape and the attempt by national states at reorienting themselves after the end of the Cold War toward a European-prone path, the FLA had a very controversial life made of big announcements and poor deeds. In fact, notwithstanding the importance of the programme, the negotiations between the parties were time-consuming and the distributional issues among the states were hampering a broader consent on programme features.

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<sup>577</sup> François Beck, Général de division aérienne, « Disposer de la capacité de projection des forces », 2001, p. 64.

<sup>578</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a.

<sup>579</sup> Paul Proctor, “Industry Outlook”, *Aviation Week and Space Technology*, March 6, 1995, p. 11.

The ESR(European Staff Requirement), drawn in 1996 clarified the main characteristics of the aircraft considering possible scenarios and missions: the nations were asking for an all weather, day/night tactical and strategic airlifter, independent from ground support. It should have had the capability to deploy troops or weapons systems between or within theatres of operations by parachute or by landing on short, semi-prepared landing spots. The steps made by these European states highlighted the commonality of exigencies: as said, it comes as no surprise that a speed up of the project was determined in the late '90s when the need for interoperability was more pressing given the Balkan failure, transatlantic rifts about the Iraqi war and given states' limited defence budgets, "the scope of this initiative to specify and procure an aircraft of a common definition is unique and clearly points to the way forward in the domain of smart procurement for the armed forces of allied nations";<sup>580</sup> in the same vein, "while the A400M program spent many years in limbo, the requirement for this plane has been greatly increased by political change. The strategic rift between the US and Europe, worsened tensions arising from the second Iraq war, highlighted Europe's need for military self-sufficiency".<sup>581</sup>

The setting of the aircraft was encouraged by the same pressures that characterized OCCAR' s creation. After having stated their common needs, the seven Countries(except for Portugal that did resign from the programme in 1997) delivered an offer, the Request For Proposal(RFP). The RFP was sent to Airbus Military (European Company), to the United States and Ukraine, in order to stress the competitiveness principle behind the tender, but "sadly, for reasons which are peculiar to each nation, states behaviours have been different. France, Spain Belgium and the United Kingdom have referred to the United States, while France, Spain, Germany and Italy have referred to Ukraine. It is apparent that among seven countries France and Spain opened

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<sup>580</sup> EADS « The A400M Programme : a Partnership Without Precedent », <http://www.eads.net/1024/en/businet/miltrair/a400m/partnership.html>. The tactic transport implies the ability to deploy men as well as military equipments directly to the operation theatre. It is aimed at providing logistic support to the forces engaged in the operations. The strategic role of the aircraft is provided by the ability to project rapidly huge capabilities in great distances. By providing tactical and strategic roles the A400M is able to deploy a military force in a short time. It is the only aircraft with these characteristics today.

<sup>581</sup> Richard Aboulafia, « Military transport Market Grows », *Aviation Week & Space Technology*, 160, 3, 2004, p. 30.

competition in a broader way”.<sup>582</sup> On January 1999 Airbus Military proposed the ‘A400M’ programme underlining that national states should have been responsible for ordering a consistent number of aircrafts and for supporting penalties in case of retirement from the Programme. Airbus Military Company, AMC, which is a military division of EADS was built up specifically for this programme and comprised the industries of all the nations that moulded the European Staff Requirement.

Aside from the Airbus Military Company proposal there were two other alternatives: an American proposal and a Russo-Ukraine one. As for the American proposal, there was not a unique aircraft able to satisfy the operative requirements delineated by the European countries; instead, two aircrafts were needed, namely the C130J and the C17. This alternative was refused on the ground of at least three reasons according to Jean Menu: a logistic one, which underlined that the C17 ability to work in difficult terrains had limits while a more adaptable aircraft was necessary to reach the terrestrial forces. Second, the economic reason emphasized that in the case of an American choice European countries would have been submitted to the dollar cycle and that an American choice could have impaired the competition on the civil aircraft sector, giving a great leverage to Boeing on international markets. Finally, strategically, “with a view to build a defence for the European Union it would be disappointing to adopt American material”.<sup>583</sup> In fact the project will be important both for the European aerospace sector and for the Airbus Company itself.

The other alternative was the Russo-Ukraine’s one, proposing the Antonov AN-70 model, that was better able to meet the requirements listed by the European states. Nevertheless, the aircraft was far away from the development and certification phase, and it would have probably requested France and German substantial contribution for all production costs and adaptation to European norms. All that said, it should be stressed that Germany’s attention to the Antonov An-70 has been one of the factor that has delayed the programme in its first phases. In fact, this latter was considered a superior and cheaper

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<sup>582</sup> Jean Menu, « Les réponses industrielles aux besoins opérationnels des Forces Aériennes(l’A400M) », *Défense Nationale*, Juin, 2001, p. 67.

<sup>583</sup> *Ibid.* p. 72.

option by the German Ministry of Defence, but probably for political reasons the 'European' solution was adopted.<sup>584</sup>

In 2000 France and Germany decided together in favour of the A400M proposal, with a common declaration in Mayence (Mainz); this joint declaration emphasized once again the 'tandem' position the two states often show off in military issues.<sup>585</sup> In July 2000 in Farnborough, France, the UK, Spain, Italy, Belgium, Germany, Turkey and Luxemburg(in strict collaboration with Belgium)did agree to the programme with a Letter of Intent, declaring the intention to procure some 225 aircrafts thus divided:

FRANCE	50
UNITED KINGDOM	25
SPAIN	27
ITALY	16
GERMANY	73
TURKEY	26
BELGIUM	7(plus one for Luxembourg)

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<sup>584</sup> « Airbus Military A400M », *Flug Revue*, 2003, [http:// www.flug-revue.rotor.com/Frtypen/FRFLA.htm](http://www.flug-revue.rotor.com/Frtypen/FRFLA.htm). See also, Wolfgang Gehrman, « Scharpings Luftnummer, Der Eurofighter richtet ein Desaster im Haushalt des Verteidigungsministeriums an », *Die Zeit* 10, 2002, [http://www.zeit.de/2002/10/Scharpings\\_Luftnummer](http://www.zeit.de/2002/10/Scharpings_Luftnummer). For an in depth analysis of the internal German debate about financing see also Deutscher Bundestag, Stenographischer Bericht, 250 Sitzung, Berlin, July 25, 2002.

<sup>585</sup> 75th Franco-German Summit of Mayence, Déclaration du Conseil Franco-Allemand de défense et de sécurité, Juin 2000. [www.france-allemande.fr/75eme-Sommet-franco-allemand-a.html](http://www.france-allemande.fr/75eme-Sommet-franco-allemand-a.html). In the declaration the two countries commit themselves to the acquisition of the strategic aircraft, deeming it paramount in order to develop a European defence might and «creating the conditions for the formation of a European common and consistent transport fleet”. This declaration was of course reinforcing the engagement towards the aircraft. This previous bilateral agreement was able to bring about a defined policy guaranteeing a higher bargaining power on the decisions to be taken. Bilateral agreement are in fact sometimes searched before a multinational agreement, so as to grant a stronger contractual power to the states engaged because changes in their positions are not easy to be achieved: the position of one actor can be changed only with the other actor' s consent. Because of that the contractual margins are deemed to be more wide than that of single states.

The minimum of orders necessary to obtain a sound cost-benefit trade-off and therefore essential for starting production was 180. Immediately after the agreement the intention was expressed to pass the programme to OCCAR, so as to optimize the procurement process “what is needed now is to concretize the political orientations integrating the contracts to Airbus through OCCAR”, said the French Military advisor of EADS.<sup>586</sup> A MoU (Memorandum of Understanding) for the procurement of the A400M was signed in June 2001 at *Le Bourge* Air Show and the contract negotiation between participating nations was assisted by OCCAR-EA. At this date the commitment for orders dropped to 212 aircrafts. In this phase, in fact, Italy withdrew from the Programme (while Portugal seemed interested to re-join it with 3 orders). A revised MoU was signed in 2001, placed the main contract and assigned the programme to OCCAR-EA: it formalized the decision to procure 196 Aircrafts, given Turkey’s reduction of orders:

FRANCE	50
UNITED KINGDOM	25
SPAIN	27
PORTUGAL	3
GERMANY	73
TURKEY	10
BELGIUM	7 plus 1 for Luxembourg

The first aircraft flight was planned in 2006. Parliamentary ratification by Germany required two years to come; the final contract between OCCAR-EA and Airbus Military Company, chosen as prime contractor, was on 27 May 2003. The prime contractor, responsible for price proposals, performance guarantees and delivery dates, launched the A400M Programme, committed to produce 180 models, just the exact number to make up for production costs: Portugal did resign again from the Programme while two years of controversial parliamentary debates in Germany scaled down the take-offs to 60.

In the above-mentioned Farnborough meeting, the seven Defence Ministers emphasized their commitment to the Programme and to a European defence capability, stressing also the industrial return that each of the national industries would have obtained from the creation of the system. One of the aims of the nation states engaged in the Programme was to get the maximum economic benefits out of it;

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<sup>586</sup> Jean Menu, 2001, p. 74.

therefore the procurement procedures were of the paramount importance to absolve this task. Jean Menu sustains that it was absolutely conformed to the willingness of the *Delegation General d'Armament* to reduce costs: the reduction of costs, says the author, will face budgetary decline but will also sustain competition towards the United States.<sup>587</sup>

What the states jointly decided for was to employ the 'commercial approach', deemed able to achieve the greatest savings out of the production process through the setting of a fixed-price contract. Following these directives Airbus Military exhibited an acquisition procedure derived from those employed within Airbus civil sector, which were aimed at reducing costs by pooling development and production activities in a single phase without need for ulterior approvals, "under the commercial approach A400M customers sign up to a set of performance and supportability guarantees leaving the precise technical solutions to the discretion of Airbus Military...Unlike traditional military programmes, this compressed 'one-shot' commitment guarantees the lowest price possible for the development and production of the A400M".<sup>588</sup>

The French Government has spent a lot of efforts for a positive conclusion of the project: it has required the reduction of specifications, the utilisation of a civil approach, the drop of costs, the creation of a European Consortium and the planned acquisition of the aircraft by all countries participating in its construction. France's resolve for the development of a sound and economically efficient programme was twofold: on the one hand the exigency to prop up a European significant programme; on the other hand, the need to use the scarce financial resources of its defence budget in the most rewarding way. France has been plagued by huge internal debates about the soundness of a "commercial" approach for the awarding of the Programme Contract. For France the problem was never whether to decide for or against the A400M but instead the way through which to finance its 50 orders. While France finally backed the 'commercial approach' solution -which was anyway consistent with a broader national aim arisen in the late '90- positions inside of the country stressed that this approach could have spurred a competition struggle and the decline of the French industry among more powerful ones, "it is the first time that

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<sup>587</sup> *Ibid.* p. 68.

<sup>588</sup> Airbus Military, "A Single-Phase Programme", <http://www.airbusmilitary.com/programme.html>.

states(France and Germany at Dijon Summit<sup>589</sup>) confer to their defence industries all the financial risks and demand to them to behave as the Civil Aircraft industry, where air companies are satisfied with buying 'off-the-shelf'. By acting this way you have fostered the disengagement of the State from its obligation to grant state defence in order to permit the market law to regulate the means necessary to its security".<sup>590</sup> *Aérospatiale*, the French industry embodied in Airbus would have seen a deep reduction of its role in the development of the programme, determining an impressive cut in jobs. Other politicians maintained that the disengagement of the French state put in danger the same existence of the programme by emphasizing that industries would not have found the funds required to carry forward the programme. This potentially meant to confer to the United States the monopole of the military strategic transport, given that American armament Programmes were partly financed by public credits. The strong internal debate and final decision underlined how important was for France the development of this aircraft.

Summing up, the A400M was an aircraft thought to meet the exigency of seven Countries' Armament Delegations, namely, that of proposing a remedy to a persisting gap in quick and efficient troops and cargos projection in out-of areas operations. In fact when in the mid '80s it was chosen by WEAG (Western European Armament Group) for replacing Lockheed C-130 Hercules and C160 Transalls (Franco-German) aircrafts the Future Large Aircraft (then A400M) had to confirm and promote a

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<sup>589</sup> "France and Germany have agreed to propose to all European partners to build an aircraft by a consortium of European enterprises and to confer the guide to a pool of European countries determined to order European aircrafts" June 6 (1996). Before that *Aérospatiale* proposed to finance the 50% of the Programme.

<sup>590</sup> Claude Billard, "Séance du 19 Juin 1996 sur la loi de programmation militaire des années 1997-2002", <http://www.senat.fr/seances/s199606/s19960619/sc19960619020.html>. This argument, states the author, focus in particular on the maintenance of employment and on national sovereignty. In 1995-1996 French aerospace industry workforce decreased of 400 units than 1994 and of 127000 from the beginning of the '90s, see Pierre Sparaco, "France Drops FLA as Budget Shrinks", *Aviation Week and Space Technology*, 144, 10, p. 23. Even if the trend of defence budget looked gloomy three years later the Defence Minister Alain Richard affirmed that France would have kept its commitment towards the A400M airlift programme and in procurement expenses in general would have dropped only slightly, see Pierre Sparaco, "France to Keep Tight Reins on Military Procurement", *Aviation Week and Space Technology* 153, 13 2000, p. 33.



European preference aimed at a European independence. For this reason, as above stated, a lot of experts argue that A400M is a very significant programme that goes beyond a pure technical-operative or industrial meaning.<sup>591</sup> The work-share assigned to each European industry would have provided benefits but also improved and stimulated the European Industrial Base, given the high technological contents embodied in parts of the Programme. Also, given the potential beneficial returns, sub-contractors would have strived to propose better solutions to be chosen by the prime contractor. Therefore, the production of the aircraft answered broader European objectives: the survival of the European Aerospace industries, otherwise likely to be destroyed if divided, and the fostering of technological components necessary in the aerospace sector.

#### 4.15.2 A difficult coordination path

The necessity of this aircraft proved, states were trying to adjust their different positions regarding the specific features of the Programme and broader contractual arrangements. Of course, all these debates and uncertainties delayed the Programme.

It is fair to say that the process leading to the decision for the A400M has not been without problems, “after a lot of controversies and hesitations governments of the seven states have convinced themselves of the good choice and have oriented themselves towards the A400M solution”.<sup>592</sup> Different positions among states keep characterizing the programme within OCCAR: in particular, and as it will be clarified below, states are trying hard to arrange the In Service-Support phase. Consistently with the arguments just presented, a basic agreement exists among states to coordinate their actions but when it comes to consider distributional issues they are always reticent to abandon their positions. In fact, the A400M history has been determined by big steps forward but also by huge setbacks. Notwithstanding a common willingness, in place from the ‘80s, to create a strategic military aircraft for European operations, the importance of the programme for the European defence future and its positive technological and industrial fallouts, states diverged in the preferred positions to be achieved, in the

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<sup>591</sup> Andrea Tani, “A400M e Joint Strike Fighter: l’impatto strategico per l’Italia”, *Pagine di Difesa* 29, Ottobre 2001, [http://www.paginedidifesa.it/2001/tani\\_011029a.html](http://www.paginedidifesa.it/2001/tani_011029a.html).

<sup>592</sup> Jean Menu, 2001, p. 73.

agreement to be reached given the funds, in the work-share deserved, in the cost/benefits calculus of jobs and in the implication of such a programme for transatlantic relations. Each of these elements was perceived differently by states because different were the interests pursued within the cooperative setting, "major defence procurement decisions are by definition exceedingly complex and delicate affairs, involving as they do an acrobatic balancing act between many different and equally important considerations which more often than not are in direct conflict with each other".<sup>593</sup>

Lindley-French assessed that the A400M aircraft was an example of the distance between words and deeds, implying that the programme, even if of the utmost military and industrial significance, was plagued by a combination of true or false financial problems and nationalistic rivalries which have rendered more difficult its development.<sup>594</sup> Thus, explains Ezio Bonsignore, even when operational requirements are matched with available resources some trickier issues have to be considered, such as political and strategic issues and concerns deriving for the preservation of a national industrial capability or of internal occupation.<sup>595</sup> In fact, adds another expert, "the multi-national programme... has gone through what many observers feared would prove to be an endless series of false starts, political back-pedaling, industrial battles, postponed parliamentary debates, sudden withdrawals, reciprocal threats and blackmails...".<sup>596</sup> Each country was therefore motivated to get its preferred outcomes while this inevitably determined delays and postponements of the Programme, "we could thus perhaps expect the Paris Air Show(2001) to produce yet another generic and substantially meaningless Joint Declaration or MoU, whereby the participating countries would reaffirm their commitment, would signal their intention to eventually procure hundreds of aircrafts. But as regards firm orders being signed, and money being actually committed, you must be kidding".<sup>597</sup>

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<sup>593</sup> Ezio Bonsignore, "From Pork Barrels to European Worries", *Military Technology* 7, 2000, p. 2.

<sup>594</sup> Julian Lindley-French, "European Defence: New Threats, New Missions, New Actors", *Military Technology* 6, 2002, p. 14.

<sup>595</sup> Ezio Bonsignore, 2000, p. 2.

<sup>596</sup> Sergio Coniglio, "A400M, AN-70, V-130J, C-17: How Do They Stand? A Comparative Report of Military Transport Aircraft Programmes", *Military Technology*, 2003.

<sup>597</sup> Ezio Bonsignore, "A400M Showdown", *Military Technology* 6, 2001, p. 4.

As evidence of that, in 1996 the planned start of the FLA (Future Large Aircraft) was thought to be in 1997, the first flight in 2002 while 2004 would have seen the start of the In-Service phase. The estimated orders for the aircraft was 300, with the biggest ones to be shared by France, Germany and Great Britain. In 2000 the commitment was for 225 aircrafts and later on dropped to 180: Germany 60 models, France 50, Spain 27, Turkey 10, the UK 25, Belgium 7 and Luxembourg 1.

Of course, the more important controversies and delays were determined by lacking funds: France and Germany had cut substantially their defence budgets and their industrial partners wanted to have states' commitment to a certain amount of orders before creating the Consortium (Airbus Military Company), given the employment of a 'commercial' awarding process.<sup>598</sup> For example, in 1996 discussions arose about a possible withdrawal of France from this programme and the likely consequences in terms of orders, given that France had planned to acquire more than 50 aircrafts and was one of the main promoter of the project. Also in this vein the German proposal order of 73 aircrafts, given its internal financial problems and political struggles, seemed unrealistic. Germany's off-take reduction would have inevitably determined, and it did, a broader reorganization of the programme work-share and costs. In fact, in order to minimize the impact of cost increases determined by reduced orders and delayed delivery negotiated in 2001 the United Kingdom planned a restructured delivery schedule, "an incremental acquisition of certain configuration items for the tactical role was also agreed although subsequently provisions for the more important of these (Defensive Aids Sub-System-DASS) was reinstated to the early deliveries in the light of operational experience".<sup>599</sup>

Figure 18. Work-share of the A400M before Portugal withdrawal and Germany reduced orders. Source: Aviation News, [www.aviation-](http://www.aviation-)

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<sup>598</sup> Airbus consortium should have comprised the four Airbus members-British Aerospace, Daimler-Benz Aerospace of Germany, Aerospatiale Matra Airbus (France) and CASA of Spain. The associated partners were at that moment Belgium with FLABEL, responsible for the wing leading edges and flaps, Italy's Alenia responsible for the rear fuselage and other subsystems and the Turkish Aerospace Industries, engaged with structural elements.

<sup>599</sup> The United Kingdom Parliament, "Airlift Assets: A400M", House of Commons, Defence, Written Evidence, 2002, <http://www.publications.parliament.uk/pa/cm200304/cmselect/cmdfence/57/5711.htm>.

[news.co.uk/a400m.html](http://news.co.uk/a400m.html). Each of the sub-assemblies will be produced by the members nations in different parts of Europe and then delivered to the final assembly-line in Seville, Spain. (see p. 294)

In 2001 the development of the aircraft was less than sure, given specifically to the reduction of military budgets, “for the moment this willingness to cooperate is transferred only to bilateral, trilateral or more rarely more numerous partnerariats initiatives. Notwithstanding the efforts, divergences are still numerous”.<sup>600</sup> Because of its initial order of 73 aircrafts Germany pretended and obtained a large part of the works-hare for its industry. The MoU (Memorandum of Understanding) signed by all the partner countries in December 2001 stated that the contract to be issued to Airbus Military Company had to be subject to Germany obtaining full financial capability by 31<sup>st</sup> January 2002. Germany’s commitment in early 2002 was up to 40 orders, a lower number than that required for the launch of the programme (180). For this reason the issuing of the contract was delayed. When finally Germany committed to 60 aircrafts in 2003 the contract was issued, with 16 months of delay.

A non-commitment of Germany of such an amount of orders would have probably disappointed France given their bilateral strategy to commit together to the programme: because of this previous bilateral commitment at Mayence, Germany tied its hands in three ways: less than 60 orders would have had repercussions on German credibility, on Franco-German relations, and on the same development of the Programme. Germany had basically no alternatives but to commit to the orders required to launch the programme. Because of a reduced take-off, Germany’s contractual power was downgraded: it had to accept a different work-share as a form of compensation towards other states for the costs brought about. Because of the delays, the signing of the contract among OCCAR and Airbus occurred in 2003, and this has of course postponed all the phases and the first planned flight and delivery.

Also, discussions among Members about industrial workload was questioning the survival of the FLA project, re-proposing from time to time the possibility to acquire the (American) Lockheed Martin C-130J Hercules.<sup>601</sup> That of the work-sharing was one of the hottest issues

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<sup>600</sup> Jean-Paul Béchat, “L’Europe de la Défense”, 2001, p. 25.

<sup>601</sup> Pierre Sparaco, « Europeans Strive to Keep FLA Alive », *Aviation Week and Space Technology*, 145, 3, 1996, p. 52.

emerging from the programme debates; finally an agreement was reached to give an industrial share proportional to the orders placed by each of the nations, while the final assembly of the A400M would be undertaken by CASA in Spain (Seville) and the management of the development activities subcontracted to Airbus. The existence within Airbus of available production centres and facilities has eased the organization process. The national industries work-share were mainly the same as in Airbus Civil production: Airbus UK was responsible for the wings, Airbus France for cockpit management and fight controls, Airbus Germany for the main fuselage and Airbus Spain for the horizontal stabilizer.<sup>602</sup> All these states were fundamental for taking forward the programme; therefore, every participant was awarded a consistent portion of the work. The participation of Airbus (responsible of 70% of the total work) guaranteed a broad share to the countries with the highest orders (Germany, France, the UK and Spain). Even if competition was planned at the subcontractor level, it was clear that the initial work-share, and the arrangement achieved among states at the prime-contractor level, were paramount. For example, EADS, a joint venture between France and Germany, and the biggest stakeholder in Airbus Military Company given its 80% of participation in Airbus, develops the transport's self-protection architecture and this has assured a leading position also within the A400M electronic warfare equipment, giving EADS a huge advantage in this field, "for the past two years, German electronic warfare technicians have been working with their Spanish counterparts, who would manufacture the aircraft, to help define the self-production suite".<sup>603</sup>

Figure 19: A400M Strategic Workshare. Source: <http://www.airbusmilitary.com/programme.html> (see p. 294)

Adding to work-share turmoil, different positions among participants regarded standardization: for example "France uses larger expendables than those utilized by other A400M partners. Germany also is driving a requirement to have large amounts of data stored on the aircraft to

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<sup>602</sup> John D. Morrocco, "Europe Inches Toward A400M transport Launch", *Aviation Week & Space Technology* 154, 25, 2001, p. 152.

<sup>603</sup> Robert Wall, "The Big Prize", *Aviation Week & Space Technology* 159, 21, 2003, p. 40. Airbus is detained 80% by EADS and 20% by BaE Systems. EADS has a total participation of 90% in the programme. EADS estimation of jobs creation in Europe because of the A400M was calculated in 40000 units.

allow in-flight replanning”.<sup>604</sup> While all states reached a common agreement on a “basic transport configuration”, every country will have its own aircraft adapted to national requirements with a different final price. Of course, the specific features of each aircraft will be produced by national industries: this is both an achievement and a limitation of the coordination process.

The number of participants in the programme should be considered both a success and an impediment: on the one hand, the stating of common requirements by different states scores a mark on a truly European willingness to face the same challenges with the same equipment, to work together and to be interoperable. On the other hand, as it happens in every game, when the number of the players increases the pay-off matrix become more complicated -as coordination points multiply- and the pursuit of the preferred outcome more difficult, “the greater the number of partner members, the less the pace of progress, would appear the rule of thumb if lessons learned from Typhoon and A400M programmes are indicators”.<sup>605</sup> Moreover, the actors find not in the same position: a state committed to a massive amount of take-offs has the possibility to delay a programme, cause additional costs, or even put in danger its same existence. The 2000 Letter of Intent, the 2001 MoU and the one that led to the issuing of the contract in 2003 exhibited three different arrangement points, mirroring the power of the states in a precise moment to determine a defined setting. Each MoU is therefore a bargaining moment for states, trying to achieve their preferred outcome given the power they show off in a precise context, “in the run-up, executives are jockeying to draw attention to their companies’ offering”.<sup>606</sup>

### **4.15.3 Assessing UK’ s participation in the A400M programme**

The UK’ s pronouncement for the A400M the 16<sup>th</sup> of May 2000 caught all by surprise. Geoff Hoon, at that time Secretary of Defence, was the first leader of the European nations to firmly commit to an order of 25 aircrafts. The United Kingdom’s order was paramount both to give trust to the Programme and to speed up the achievement of the

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<sup>604</sup> *Ibid.*, p. 41.

<sup>605</sup> Barrie Douglas, “Improving the Wheel”, *Aviation Space and Technology* 161, 4, 2004, p. 52.

<sup>606</sup> Robert Wall, “The Big Prize”, 2003, p. 40.

required number to start it. This latter was a strategic move since the UK left the other states decide for the survival and development of the Programme.

The UK's decision for the A400M came after a period of scrupulous analyses of the British needs and available options; at this phase the FLA (Future Large Aircraft) programme seemed not to be the favoured option, especially for the short-term needs, "despite wide acceptance that the FLA meets these criteria, the British government refuses to give a firm commitment to it".<sup>607</sup> Apparently, in 2000 it changed its mind. The United Kingdom posed the "commercial approach" as the paramount conditions for joining the programme, which in fact it obtained, stating, in the words of the Minister of Defence Robertson, that the UK believed in 'buying European' but not at any price.<sup>608</sup> Given that the RAF(Royal Air Force) request for the kind of capability performed by the A400M was critical, a too delayed project commitment by the other states would have probably pushed the United Kingdom toward the Atlantic Ally and called off the A400M programme for good.

The decision to join the programme has not to be interpreted as a new path in the United Kingdom's foreign strategy towards a definite pro-Europe stance, even if the almost parallel decision in favour of the METEOR Missile instead of the Raytheon(American) one of course created some tensions with the Atlantic Ally, "President Bill Clinton had written twice to Mr. Blair on behalf of the American bidder, Raytheon, while President Chirac of France and other European leaders had lobbied in support of the proposed METEOR Missile designed by Matra-Bae Dynamics, a British-French Consortium".<sup>609</sup>

The choice for a European weapon system was determined mainly by the so called "smart procurement" reason. General Cardinali stresses that the United Kingdom is always oriented towards the United States' market, and this is perfectly confirmed in the UK Defence Industrial Strategy of 2005, "we recognize the attractions of the US market, given its scale and high levels of investment in research and technology...the UK defence budget has grown, but UK companies still generally are

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<sup>607</sup> « Wings and Prayers », *Professional Engineering*, Special report: Aerospace & Defence, August 5, 1998, p. 31.

<sup>608</sup> George Robertson cited in "The Future large Aircraft (FLA)", *Aviation Week & Space Technology*, 147, 5, 1997, p. 16.

<sup>609</sup> Tom Buerkle, "Blair Unswayed by Clinton Letters: Europe's Air Industry racks up a Gala Day", *International Herald Tribune*, Wednesday, May 11, 2000.

seeking to secure a share of the larger and generally more profitable US market".<sup>610</sup> Moreover the UK' s strategy has been to welcome overseas investment, especially from companies that create value, employment, technology or intellectual assets in the UK and thus become part of the English defence industry: "within this strategy, we aim to tell industry very clearly where, to maintain our national security and keep the sovereign ability to use our Armed Forces in the way we choose, we need particular industrial capabilities in the UK (which does not preclude them being owned or established by foreign-owned companies)".<sup>611</sup> As an example of this, BaE has sold its quota on the Airbus Company to invest in the American market. Nevertheless, the United Kingdom pretends that its sold quotas be based in the English territory, in order to guarantee jobs and security of supply: products or strategic services are kept within the national territory meaning that the UK has always a control on foreign societies.<sup>612</sup>

Indeed the United Kingdom had a big return from its participation in the programme. Airbus, presenting to the MoD the aircraft for its Joint Rapid Development Force, explained that the American alternatives(C-130J and C-17) did not guarantee as much benefits as the A400M in terms of performances and costs; moreover, the UK would have had a major role in wing design and production in the same vein as it had in the production of civil aircraft within Airbus. Against this background, it is important to stress the lobbying made by British Aerospace in favour of the European project at the time of the decision, "without UK government involvement...BAE lead in European wing technology designed would be threatened".<sup>613</sup> Also, Roll Royce has been engaged in

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<sup>610</sup> Ministry of Defence, "Defence Industrial Strategy", *Defence White Paper*, (Presented to Parliament by the Secretary of State for Defence), December 2005.

<sup>611</sup> *Ibid.*, pp. 6-7- 26. The strategy states that while Continental companies searched to penetrate the US market only the UK has been able to do that. Therefore European Companies searched to access the UK market which is "closer to home, relatively open to foreign suppliers and shareholders and an attractive extension from their home markets. Thales and Finmeccanica are examples of foreign-owned companies who have successfully established significant UK market share, generally by acquisition".

<sup>612</sup> General Nazzareno Cardinali, Director, OCCAR-EA, *Interview*, Bad Godesberg, Bonn, November 27, 2007a. Even if Airbus bought English quotas it keeps sending works in the UK. The same has happened with Augusta Westland which, in part Italian operates in the UK..

<sup>613</sup> Carole A. Shifrin, "C-130J, FLA, Battle Rages", *Aviation Week and Space Technology*, 12, 1994, p. 27, and of the same author see also "Britain Supports



the engine design and supported by the UK's Government (letter of intent to Rolls-Royce, 4 May 2003). Benefits will be guaranteed also to the propeller manufacture industry with the participation of Messier Dowty and the advanced composite industry because of the use of carbon-fibre structure.<sup>614</sup> The industrial return for the British participation were therefore apparent.

The final decision of the MoD was hence to lease four Boeing C-17 aircrafts(American) until the A400M enters service, and also to buy Raytheon(American) missiles until the METEOR ones come into being, a perfect way to keep a balance between Europe and the Atlantic ally.

#### 4.15.4 Italy's decision to withdraw

After a commitment to the programme Italy withdrew and decided for the acquisition of American aircrafts. As seen before, Italy planned take-off was of 16 aircrafts.

Someone has interpreted this move as a precise strategic one, as a re-statement of the transatlantic link compared to the European one. This argument should nevertheless take into consideration the limited strategic options Italy had on that occasion. Italy found itself within two different poles: the UK, with its special and certain relationship

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both C-130J and FLA", *Aviation Week & Space Technology*, January 2, 1995, p. 24. BAE Systems, explains the author, affirmed that it would have lost its wing design team guaranteed by its engagement in the Airbus company.

<sup>614</sup> « Wings and Prayers », 1998, p. 31. When the estimated orders where 300 the costs of the A400M was around 75 million dollars, comparable to that of the C-130J but with superior performances. Inevitably with the droppings of orders the price(differently from the free-market logic) started to rise. In 2000 when 225 aircraft were estimated to be ordered prices rose to 85 million of dollars. Commitment by states to a specific amount of orders was therefore paramount in order to carry forward the programme and mark its competitiveness. In 2003, with the final signing of the contract between OCCAR and Airbus Military, the estimated price was around 120 million, but the price of course will be different according to each nations' preferred configuration. Final assembly of the composite wingbox takes place at Airbus UK in Filton and GNK Aerospace of the UK will supply the complex carbon wings, see [www.airforce-technology.com/projects/fla](http://www.airforce-technology.com/projects/fla). Finally, according to BAE Systems officials, "the A400M would generate over 8000 jobs in the UK alone, as well as provide the funds for a major new advanced wing manufacturing center at the company's Bristol site", Philip Butterworth-Hayes, "A400M: Symbol of European Commitment", *Aerospace America*, April, 2002, <http://www.aiaa.org/aerospace/Article.cfm?issuetocid=191&ArchiveIssueID=25>.

with the United States and the Franco-German tandem that showed to be able to go ahead out of a broader European participation. From time to time Italy has perceived the exigency both to re-mark its European stance or its faith to the transatlantic ally. Given that Italy had also the possibility to deploy the C-130J (American) aircraft which would have somehow overlapped with the A400M, its decision towards this latter should had to be interpreted as a clear European move.<sup>615</sup> Also, Andrea Nativi, an expert on defence issues, argued that "Italy, having already acquired 22 C-130Js and with an ongoing programme for the purchase of a dozen C-27Js, has already done more than its call in the military air transport sector",<sup>616</sup> and therefore there was no logical reason to participate to the A400M programme also because Italy shortages stood mainly in combat aircrafts rather than transport capabilities.

Against this background, there was not the possibility to finance three different projects. Moreover the C27J, a light transport helicopter, was produced by Alenia and Italy pointed to make it known internationally, given that its predecessor, the G222, was largely used in Africa, East Timor and Latin America. Given Italy's 16 planned orders, argues Nativi, its industrial work-share would have been of 7,5% and therefore of no strategic significance. Italy's industrial return would have consisted of only "a small slice of the A400M pie" and given Italy's reduced financial resources this distribution of benefits was too small. According to some pundits, Italy did not participate in the programme since it auspicated basically the application of the *juste-retour* principle.

In an audition made to the parliament for explaining the reasons of Italy's disengagement Minister Antonio Martino explained that European industrial and strategic considerations should not have had the primacy towards economic and technical reasons, and could not have imposed excessive costs in comparison to alternatives at disposal. In any case, the building of a European defence was a political action with few in common with the construction of a transport military

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<sup>615</sup> Ezio Bonsignore, "From Pork Barrels to European Worries", 2000, p. 2.

<sup>616</sup> Andrea Nativi, "Italy and the A400M Programme: the Time for Follies is Over", *Military Technology* 11, 2001, p. 8. This expert's position is strongly against the "European solidarity" that some invoked in order to join the A400M programme. He emphasizes that Italy should plan its procurement on the basis of operational requirements and needs, cost/efficiency assessment, national priorities and industrial return considerations. The same arguments can be found in Andrea Tani, "A400M e Joint Strike Fighter: l'impatto strategico per L'Italia" 2001.

aircraft.<sup>617</sup> Moreover, continued the Minister, the new scenarios and new terrorism threats did not require urgently transport capabilities but rather other competences such as aerial defence. In accordance with Nativi's argument Martino pointed out that the Italian industry would have had only a secondary role in comparison to the other European industries; this of course meant that relative gains were taken into account in the final decision. Therefore the agreement that would have probably been reached was not satisfying Italian interests.

While the decision to remain in the A400M programme could have not been explained in terms of 'value for money' it could have nevertheless driven the long-term strategy and direction of a state foreign policy. Because of that, Italy has experienced a strong internal political debate about its decision to withdraw the A400M Programme. After a first Commitment with the centre-left government in 1999, the centre-right one decided not to sign the agreement in 2001 and therefore to abandon the programme and its estimated orders, a political decision that spurred strong tensions between the Minister of Defense and the Minister of Foreign Affairs Renato Ruggiero, which was in favour of the Programme.

Reactions spurred within the political landscape highlighted that the withdrawal decision would have endangered the role of Italy in Europe, determined its isolation and put it at the margin of the tailoring of a security and defence policy.<sup>618</sup> It is true that with its 16 orders Italy was not considered vital for the survival of the programme and had not the same bargaining positions of other participating states, but some authors stress that the Italian industry could have participated in strategic sectors, "Italian government called itself out of a fundamental EU programme, in which its industry could have played a paramount role-this time totally balanced to the amount of spent euros- only to please an hegemonic ally which makes no discounts and

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<sup>617</sup> Former Defence Minister Antonio Martino, Comunicazione del governo sugli sviluppi della crisi internazionale: Audizione del ministro della difesa, Antonio Martino, Camera dei deputati, XIV Legislature, II and IV Committees and 3rd and 4th Senate Committees, Session of December 20, 2001.

<sup>618</sup> Camera dei Deputati, "Resoconto Sommario n° 80", XIV Legislature, Session of December 18, 2001, positions delivered by Marco Minniti and Sergio Mattarella. To see the mounting tensions among the Minister of Defence and Minister of Foreign Affairs see Gianni Dragoni, "Quando Martino non volle gli A400M. Il "no" all'impegno di Mattarella", *Il Sole 24 Ore*, Ottobre 12, 2006, p. 13.

which does not reciprocate at all".<sup>619</sup> According to these positions Italy should not aspire to be only a sub-contractor of the American industry, but instead it should endeavour to develop the ability to produce with higher levels of technology, to be competitive and therefore be able to export. Italy discarded the option to participate through a 'defensive cooperation' strategy: as seen in the theoretical part, cooperation may be spurred also by the desire to eschew huge discrepancies in relative gains arising from the non-participation to a cooperative game. Some pundits put the blame on the Italian Government for having put in danger Italy's position at a complex and fluid European turnover, "one thing is to contract even hardly with European partners to enter the alliance at the best conditions and on a substantially equal base affirming the right to preserve relations with the American industry; other thing is to cut the alliance, to withdraw without consistent motivations, with a snapshot act that -if effectively made- would downplay our credibility in common enterprises".<sup>620</sup>

Italy's decision to withdraw from the Programme still arises debates within the political spectrum. It is possible, as the Air Force maintains, that Italy did not need that aircraft but its participation in the first phases of the Programme planning and its withdrawal afterwards seems to suggest that Italy was not content with the return conferred to its industry. Given the impossibility to pursue a unilateral path, it had to rely on partners to satisfy its requirements and therefore its strategic options were quite restricted. As said before, a procurement decision, especially in this case- where the weapon systems considered is a watershed in the European defence context and encompasses a considerable number of European partners- is never a pure 'value for money' evaluation but also and prominently a strategic move. It remains to be seen how the A400M will impinge on the European long-term strategy and partners interoperability.

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<sup>619</sup> Andrea Tani, "Difficoltà per l'Industria della Difesa", *Panorama Difesa*, Febbraio 17, 2004, p. 44.

<sup>620</sup> Giovanni Urbani, "AIRBUS: Il ritiro dell'Italia dal programma aeronautico europeo A400M è un grave colpo all'Europa comune e all'industria aerospaziale nazionale", *Coordinamento Aerospazio DS*, Ottobre 22, 2001, [http://studio.dsonline.it/autonomie/aerospaziale/documenti/dettaglio.asp?id\\_doc=4831](http://studio.dsonline.it/autonomie/aerospaziale/documenti/dettaglio.asp?id_doc=4831).

#### 4.15. 5 OCCAR management of the programme

OCCAR management of the A400M aircraft constitutes a paramount step forward both for the organization and for European defence more in general, “the conclusion of the A400M contract last year was a major vote of confidence in OCCAR”;<sup>621</sup> also, “the decision to put the new A400M programme under OCCAR, even though some of the project partners are not OCCAR members, was the clearest possible vote of confidence in the organization”.<sup>622</sup> In 2004 the Director of OCCAR-EA affirmed that “the planned A400M milestones have been achieved on schedule; a marked improvement has been achieved in the field of exchange of information between the Programme Division, nations and Airbus Military.”<sup>623</sup> The A400M will promote operational cooperation among European states given that “aircraft configurations are about 90%”.<sup>624</sup> Participating states will request installations of components or particular systems in order to satisfy their specific requirements but the bulk of the programme is commonly defined and shaped: this shows that the participating states found cooperation the soundest way to follow. They agreed on coordinating their requirements towards a common basic aircraft to which they would add own features through their national industries. In this way, they found a compromise between the exigency to cooperate and the willingness to maintain national prerogatives.

OCCAR, on its part, has searched to get the maximum benefit out of this programme, “since 2003 we have been continuously applying best management methods to the programme, with a special focus on risk management. Signing a Letter of Understanding with Airbus Military in October 2003 has significantly improved the co-ordination of programme activities and in particular the involvement of our customer in the military aspects of the design of the aircraft. This has

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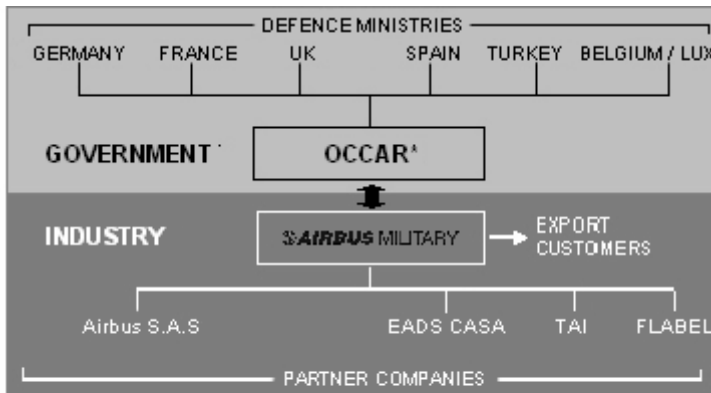
<sup>621</sup> Peter Spencer, “Confronting Reality in Defence Procurement: Pragmatic Steps to Improve Performance”, *RUSI Journal*, April 2004, p. 53.

<sup>622</sup> Denis Ranque, “OCCAR’s Role In European Armament Cooperation”, 2004, p. 50.

<sup>623</sup> General Nazzareno Cardinali, « Foreword », OCCAR Business Plan 2005, p. 4.

<sup>624</sup> Baudouin Heuninckx, « Availability Improvements in New Transport Aircraft, The Case of the A400M », *NATO Paper*, Unclassified, p. 3.

created a fruitful relationship with industry, which has now led to the achievement...”<sup>625</sup>.



\* Organisation Conjointe de Coopération en Matière d'Armement

\*\* Airbus S.A.S. represents Airbus Deutschland, Airbus U.K., Airbus España and Airbus France

Figure 20: Programme Organization. Airbus Military Source: <http://www.airbusmilitary.com/organisation.html>

What has to be remarked is that probably states would have reached in any case a coordination point. In fact, coordination has been reached among states in a series of international cooperative programmes. Nevertheless, it is plausible, as General Cardinali emphasizes, that in the case of the A400M coordination was reached because of the perspective to integrate the programme within OCCAR: this makes a lot of difference since states in this case did decide to 'bind' their commitment through the organization in order to get some economic and strategic outcomes out of their cooperative actions, to agree on a precise schedule, to accept OCCAR procurement procedures. Given the number of participating states and the complexities involved in a programme such as this one, OCCAR has certainly eased the organizational procedures and has permitted its development, "it is understandable that the A400M Programme, without an Organization such as OCCAR that encompasses needs, that harmonizes procedures and manages the contractual specificities in a common contract will be

<sup>625</sup> General Nazzareno Cardinali, "Collaboration in European Defence Acquisition: Improved Outcomes", 2005b, p. 27.

completely unmanageable given the number of States and the complexity of the Programme".<sup>626</sup> This does not mean that once integrated in OCCAR states do not show different preferences regarding the programme development; to the contrary, states do continue to support their preferred arrangements satisfying their own interests, but do this within an institutionalized framework which somehow poses some limitation on their actions.

As evidence of states supporting their preferred solutions, it is noteworthy to consider the case of the A400M engine. Initially there were two proposals for the engine, a Canadian one, proposed by Pratt & Whitney and a 'European' one, the TP-400-D6, presented by Europrop International-EPI-, Rolls Royce (UK 24,8%), Snecma (France, 24,8%), MTU Aero Engines (Germany, 24,8%) Industria de Turbo Propulsores (ITP- Spain13,6%) FIAT AVIO (Italy, 8%), and TechSpace Aero(Belgium4%). After Italy's withdrawal from the Programme there was a correspondent withdrawal of the Italian industry; FIAT AVIO,<sup>627</sup> involved in the engine production was finally expelled as a punishment to Italy for having withdrawn the programme and the percentage of the engine work-share redistributed among the other members: ITP (16%), MTU(28%), Rolls Royce (28%) and Snecma (28%). The two proposals came after a previous Request for Proposal(RFP) issued by Airbus Military in April 2002; in order to optimise the technical aspects and commercial practices a second RFP was issued. In 2003 Airbus affirmed that that the Canadian offer was cheaper than the European one and that "it would be chosen if there was no 'political dimension' to the decision".<sup>628</sup> Six days later(6 may 2003), after the European Consortium made some price and contractual concessions and because of strong pressures exercised by France, Airbus Military decided for the European solution, "after a fierce competition (this being actually a bland euphemism) with the rival PW 180 proposal by

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<sup>626</sup> Philippe Castellani, "OCCAR: un exemple pratique de la coopération européenne en matière de défense", 2004, p. 14.

<sup>627</sup> FIAT AVIO is now composed of 70% by the Carlyle Group and 30% by Finmeccanica and renamed AvioSpa. It is curious to see that EPI has sub-contracted to AvioSpa the development and building of the gearbox for the engine with a contract that corresponded exactly to FIAT Avio expected share in the programme when it was a participant of the consortium, see Sergio Coniglio 2003.

<sup>628</sup> "Airbus Military A400M", *Flug Revue*, 2003, [http:// www.flug-revue.rotor.com/Frtypen/FRFLA.htm](http://www.flug-revue.rotor.com/Frtypen/FRFLA.htm).

Pratt & Whitney (Canada), the Europrop International Consortium has been selected to develop the TP 400-D6 engine for the A400M".<sup>629</sup>

The sub-contracting part was then decided according to the 'best-endeavour' practice, where "the contract requires Airbus Military to use 'reasonable endeavours' to place with industries of the participating nations a level of programme work in proportion to their off-take".<sup>630</sup>

Given the composition of Europrop it is easy to see how this exemplifies the willingness of the states to keep balance so as to mediate contrasts among them. Moreover, within the European landscape, "originally two competing designs were being considered by AMC (Airbus Military Company) from two engine consortia. Political and industrial work-share pressures, however, resulted in a decision to combine the two proposals into a single design".<sup>631</sup> In fact, Europrop did not exist before. At the very beginning of the tendering process there was a proposal from Snecma and its partners (the M138), while the United Kingdom proposed its BR700: the combination and adaptation of these two engines requirements has inevitably delayed its development even if personnel says that the engine will come out improved from this amalgamation. The United Kingdom pressed the most for including Rolls Royce in the European project, and insisted that the aircraft had a three-shaft layout in accordance with Rolls Royce design tradition: Airbus Military accepted its proposal. Therefore, the United Kingdom's influence on this issue was evident.

The choice of the European engine instead of the Canadian alternative has been considered by the Americans with a rising concern about the political reasons guiding equipment choices, such as the willingness to reward European industries instead of a more technical evaluation. This reflects some truth if, as Sergio Coniglio points out, the engine

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<sup>629</sup> Sergio Coniglio, "The EPI TP 400-D6", *Military Technology*, 2003.

<sup>630</sup> The United Kingdom Parliament, "Airlift Assets: A400M", 2002.

<sup>631</sup> John D. Morrocco, "Europe Inches Toward A400M Transport Launch", 2001, 152. The author argues that Rolls Royce is the system integrator and that it would be in charge of the intermediate pressure compressor, combustor and power shaft. Germany MTU will be responsible for intermediate and low-pressure turbines as well as for taking forward the final assembly of the engine in Berlin. Snecma will produce the core of the engine, the high-pressure compressor and high pressure turbine and the digital engine control unit with MTU. Spain will be in charge of the front frame, intermediate and face casings and engine dressings. Fiat Avio for the power gearbox and Belgium will furnish the lubrication system.



programme is very ambitious given that the design and development of turboprop engines has never been attempted by Europeans and the Western world in general.<sup>632</sup> For sure, the choice to amalgamate all the European proposals gave the possibility to pool together all European power-plant houses. A turboprop to equip the A400M with, is an engine that guarantees the achievement of efficient economies in wide contexts. The A 400M will be equipped with four engines.

As stated in the analysis of OCCAR' s structure and practices, an important element for the functioning and effectiveness of the organization is an early integration of the programme within OCCAR. This is so because states, by sharing their views and working together, become used to appreciate the positive economic outcomes coming out of a common definition of requirements, such as the prevention of redundancies and duplications in assembly lines. Moreover, this adds to the interoperability needed to face European challenges, security threats and uncertain scenarios. The A400M is without doubt the most important programme OCCAR is charged to manage both because of its 'political and strategic' relevance and because it has been integrated within the organization from the start of its development phase, enhancing the possibility to maximize the cost/performances trade-off. Moreover, knowing that more than 50% of the entire life-cycle of a programme is given by the In-Service-Support phase OCCAR has been entitled of managing this phase for the A400M at a very early date of the programme; the problem was therefore, "the search for an agreement amongst the participating states to perform support in common, thereby sharing resources and achieving increased efficiency as well as economies of scale".<sup>633</sup> The problem arose when states tried,

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<sup>632</sup> Sergio Coniglio, "A400M, AN-70, V-130J, C-17: How Do They Stand? A Comparative Report of Military Transport Aircraft Programmes", *Military Technology*, 2003.

<sup>633</sup> Baudouin Heuninckx, « Availability Improvements in New Transport Aircraft, The Case of the A400M », *NATO Paper*, Unclassified, p. 11. The author underlines that analysis conducted have shown that the gains to be achieved by common maintenance, pooling of spare parts, common configuration management to share the non-recurring costs of modifications, common centres for performing training are significant, and therefore managing this phase in a single way would be paramount. In particular he advances the example of cross maintenance as a fundamental tool as to the objectives this aircraft has been thought for: in this case the mechanics of a participating state could maintain the aircraft of another state. Also, with spare parts lateral support aircraft can be more rapidly re-deployed than if the parts had to come from the

and still do, to agree upon a sound arrangement to manage the Support phase of the programme by reconciling all their positions and preferences and coordinating their actions. This process mirrors how cooperative solutions are never taken for granted within OCCAR but need to be searched from time to time whenever states pursue a coordination path: knowing that they will lose something in this pattern since their decision will at least in part be related to that of the other states and the final result dependent from each state's collaboration, they crave to reach their preferred results that could enhance or at least preserve their prerogatives within the cooperative setting. For example, "the MoD needs to ensure that the arrangement identified provides the UK with operational sovereignty".<sup>634</sup> Also, France and Germany seem to be reticent to confer to OCCAR most of the ISS activities given they have a huge share in the Programme.

The A400M's relevance is evident also because this is one of the OCCAR's Programme in which non-Member States participate as export-nations; this is the case of South Africa, that late on December 2004 expressed its intention to acquire the weapon system. The willingness expressed by South Africa has been of the greatest value for the project, first of all because it brought about new confidence to it and second because increased orders could boost the quantity of the products to be procured. South Africa has been granted the 'observer status' after the signature of contract with Airbus Military, "as the common standard aircraft is the same as for the launching nations, OCCAR Member States and A400M Participating States have agreed to grant South Africa observer status in order to allow it to get sufficient information necessary to manage their own contract with AMSL(Airbus Military Sociedad Limitada)".<sup>635</sup> On its side, South Africa gained a work-share, (even if this is not the correct term given that it is not properly a participating nation) in the programme as well as technological transfers(worth 400 millions of euros), contributing to the improvement of airlift capabilities and to the increasing of occupation, "we believe this to be a win-win situations for all concerned. Airbus

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state owner of the aircraft. Participation of a country such as South Africa, follows the author, is therefore paramount in European operations within central Africa.

<sup>634</sup> The United Kingdom Parliament, « A400M Transport Aircraft », *NAO Major Projects Report*, November 2006, [http:// www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/462/46209.htm](http://www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/462/46209.htm).

<sup>635</sup> General Nazzareno Cardinali, "Armament: Which technologies for which Defence?", 2007b, p. 7.

Military will gain a valued partner and South Africa will benefit not only from a new and highly capable airlifter for the Defence Force but from the thousands of jobs that will be created during the life of the programme".<sup>636</sup> In 2005 was Malaysia to show interest in the Programme and to plan the purchase of four planes, that added to the eight ordered by South Africa, bringing the total production to 192 aircrafts. The contract signed between Airbus Military and Malaysia's Secretary General for Defence conferred to the country a work-share consisting on the design and the manufacture of airframe components for all the aircrafts to be produced plus a transfer of high technology (worth 200 millions euros).

## 4.16 Conclusion

The aim of this chapter was to try to explain the reasons leading states to coordinate their actions in defence procurement through the presentation of OCCAR, an intergovernmental organization for the management of weapon systems in cooperation.

European States have always cooperated in weapons procurement, but their aim was basically to make grown the own national industry. For this reason, duplications and fragmentation have characterized the European armament scenario and a soaring spiral of costs has overburdened yet limited defence budgets. As seen in the first sections of the research, OCCAR was inspired by pragmatic and political reasons: France and Germany were trying to carry forward their joint weapon systems and needed for that reason an efficient structure able to cut costs. Moreover, a restricted structure comprising the most important defence producers and consumers could have speeded up the process toward a common European Industrial Base and a European defence might difficultly reachable in the broader European context. Of course every state had different visions about the way in which the Agency had to be moulded, because different were the interest they wanted to achieve through it: for France the Agency was paramount in order to create a functional and truly European structure. The 'European preference' principle, for example, was not deemed paramount by all states; for the United Kingdom, instead, participation

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<sup>636</sup> Francisco Fernandez-Sainz, Managing Director of Airbus Military during the Ceremony for the Declaration of Intent signed from South Africa with Airbus Military for the participation in the A400M Programme, 15 December 2004, [www.airbusmilitary.com/pressrelease.html](http://www.airbusmilitary.com/pressrelease.html).

in OCCAR mirrored a well-known path, that is, the willingness to be inside every structure in the European context to monitor its development, and preferably in those in which states still retain control over their actions. The transatlantic link counted much more for some nations than for others; of course, it did count for the UK but also for Italy and maybe in a more apparent way: Italy's withdrawal from the A400M Programme was interpreted by some actors as a clear strategic choice. Germany, on its side, gave start to this project in tandem with France and in some occasions this locked tandem limited its choices, such as in the case of the A400M take-offs; nevertheless, their joint position has always constituted the bulk of European defence and economic stance. Even if different, states' interests were not incompatible and instead there was the feeling among the actors that they could have been promoted by such an agency: this conviction, together with economic, industrial and strategic pressures did favour the creation of OCCAR.

Notwithstanding its intergovernmental nature OCCAR is a structure with own rules, regulations, principles and procurement procedures, meaning that all the states have agreed upon a common and unique functioning system for the organization: this can of course be considered a great achievement on defence issues if compared to previous *ad hoc* agencies created for the procurement of military programmes. Also, states do renounce to national procurement procedures when conferring a programme to OCCAR. When states do integrate a programme in OCCAR they in fact accept OCCAR's *modus operandi*: of course, they can withdraw from a programme or defect from previous commitments but must pay all the adjustment costs and support all the negative consequences such a decision can bring about, as in the case of the UK withdrawal from the BOXER programme. OCCAR has improved and optimised its procurement practices and tried to attract the attention and trust of the Member states: in fact, in order to exploit at the maximum its potentialities it should work with a great amount of significant 'European' programmes, while state-of-the-art shows that only one programme is considered for integration .

Also, OCCAR has to mould a difficult and fluid relationship with EDA, the neonate European Defence Agency: within the European structure this broad agency aims at overtaking some of the functions previously thought for OCCAR, such as the 'harmonization of requirements' one. The years to come quest therefore for a clear and defined setting of the two agencies fields of activity, but the current situation seems to suggest that OCCAR is and will be devoted to pure management tasks.

The first programmes integrated in OCCAR were essentially existent ones, and helped the organization to start performing its functions and pool together states expertise and team-works. As seen in the research, to these programmes the classical *juste-retour* principle has been applied, meaning that states did have an industrial return on the basis of their financial contribution to the programme or to orders made. This principle has turned into the 'global balance' one with the 'new' programmes: knowing that a more competitive framework would have pushed for better solutions while protecting Member States capabilities, these latter decided for an industrial return based on more programmes and calculated on more years. Here the consideration is twofold: for the 'global balance' principle to work appropriately more programmes should be integrated within OCCAR; also, an increased membership could render the industrial return calculus more arduous. OCCAR has been sometimes alleged of being an 'exclusive club': this statement is reinforced by the strict entry conditions imposed by Member States. Belgium's entrance within the organization has somehow downplayed this sensation but it is clear that the organization is composed by the most powerful European states on defence might and that this has contributed significantly to its positive results. While a new system, ESSOR, is under consideration for integration, OCCAR is managing some fundamental programmes for the new challenges ahead: FREMM, BOXER, FSAF and A400M are outstanding examples of the contribution the organization can provide to a deepening of the European Defence Industrial Base and to an increased interoperability indispensable to face new security threats. In particular, the A400M aircraft stands as a demonstration of the willingness of seven European states to coordinate their actions and answer together to similar needs. This programme has a clear "European" relevance since, while performing tactic and strategic functions, it is aimed at filling a gap in European projection capabilities necessary to conduce out-of-area missions and be independent from the Atlantic Ally. As seen in the research, this programme has been plagued by delays, postponements, work-sharing controversies and withdrawals: within OCCAR Participating States are now facing the complicate issue of arranging the In-Service Support phase, trying to compose apparent divergences. All the 'struggles' occurred and occurring within OCCAR and within each programme characterize the nature of an organization essentially created to pursue states' interests; nevertheless, the awareness that

unilateral path are no longer pursuable or not rewarding has pushed states to search for coordination and compromise solutions.



# Conclusion

The attempt at explaining cooperation on defence procurement among European states arises from the observation of real endeavours to harmonize and coordinate weapon systems acquisition and management procedures. The relevance of this topic is self-evident, as standardized or interoperable arms are to-date the preliminary condition for substantiating a European defence stance.

The research has tried to consider all the facets of the cooperation observed, from the clarification of the concepts to be employed to the actual depiction of coordination on weapon systems. In fact, the first two chapters have been mainly theoretical with a high level of generality, while the last two chapters narrowed the scope of the research by presenting the cooperation arrangements agreed upon within the European landscape.

‘Cooperation’ is one of the few subject-matter that all mainstream International Relations schools of thought have problems to deal with powerfully and convincingly. Cooperation out of pure alliance dynamics and characterized by common principles, norms rules and decision-making procedures on a given issue area is traditionally labelled as ‘regime’. While the ‘sociological’ approach has described the existence of regimes as a reflection of shared interests and identities springing out from common ideas, from communication, persuasion and discourse, the ‘rationalist’ approaches have always considered regimes as a collective action problem. This research does follow the assumptions of the rationalist approaches as most of the times regimes do not mirror social institutions but compromises and bargaining among different interests and among differently endowed states.

Economic regimes have been broadly treated by the functionalist school of thought, which sustained how the Prisoner’s dilemma soundly exemplified the cooperation challenges to be faced by states: the fear of being double-crossed was the main determinant against cooperation, while regimes, with their institutionalized pattern of cooperation, the recipe to this problem. At a more careful glance, though, the challenges states’ may face when cooperating depend on



the structural situation in which they find to play: coordination games, for instance, seem to characterize a broad array of cooperative situations where states do agree to act jointly so as to avoid a particular outcome, but differ on the coordination point they hope to and strive to achieve. The precise arrangement is therefore strongly influenced by the power states do exhibit.

If the neo-institutionalist school of thought is aware of the poor explanatory power of its theoretical approach to security issues, the realist one has a basic difficulty in explaining cooperation in security matters: the problem, for both of them, is to consider the 'security dilemma' as the basic conditions upon which states make their strategic choices. Contrary to that, security should be intended in broader terms as the possibility to pursue basic interests, such as prestige, independence and economic well-being: all these goals depend on and are influenced by the context in which actors do find themselves to play and by the relations they entertain with each others.

Stating that cooperation on defence procurement can be classified as a security regime and as a coordination game does provide us with powerful insights for assessing the reasons but also the limitations of cooperation: relative gains and 'distributional' issues are on the forefront from this point of view. Coordination, though, should be interpreted as a strategy to pursue own interests when states agree on undesirable outcomes and therefore eschew unilateral paths.

Chapter two has argued that, because of the relevance of defence procurement for the security of a state -intended this latter as the preservation of power, independence but also of internal jobs and markets-, states have tried to keep it within national borders or to drive it toward the preferred but not always efficient direction: both aims have depended on the structural power of a state and therefore on the strategic options at hands. A powerful state will strive to produce its own weapon systems, while a small one will buy them off-the shelf: middle level options are those at disposal of middle-sized states.

The fundamental role a state can have on the defence procurement process has been explained by the peculiarities of the defence market: because of the very nature of the issue at hands, economic reasons have always been subject to security and strategic ones, especially in the past. In fact, cooperation on defence procurement has been employed as but another foreign policy tool according to the power and the strategic aims of the actors.

While past cooperative efforts fell short of establishing permanent and functioning procurement arrangements, today soaring pressures are

pushing states towards strongly coordinated paths. The end of the Cold War has determined an overall shrinkage in European budgets just at the same moment when new and multi-faceted threats were coming about and when sophisticated technologies were raising weapon systems basic costs. On the industrial side, faced by the overwhelming American competition, by unit costs increases and by reduction in orders, European industries started processes of internal consolidations and transnational mergers, often helped in their attempts by national states. Big and powerful defence champions have emerged out of these practices, permitting European actors to compete on an almost equal footing with American competitors. Finally, Europe has said to aspire at playing a more powerful role and at gaining an higher influence on security matters. For this to happen it should be able to increase defence capabilities. This poses two challenges: to the relation with the Atlantic Ally and among European states. The poor attempts at cooperating in defence matters should be partly explained by the existence of the Atlantic Alliance as a guarantee of security and defence in the European context: this safe presence has rendered less stringent the necessity for a European security and defence might. If after the end of the Cold War Europe envisions itself as a more proactive and independent player, then it has to fix the transatlantic hurdles this posture may arise. On the other hand, a real European defence stance should be able to smooth traditional reticence towards cooperation among European states, while favouring common operational requirements definition and coordinated procurement practices, so as to assure interoperability of their armies.

All these economic, industrial and strategic pressures have significantly narrowed states' margin of manoeuvre and made coordination the soundest alternative to choose; but ultimately, the real impact and effectiveness of cooperation has shown to be dependent on their political will and effective commitment to cooperate.

Chapter three has explained that, if a general political will has been expressed by European states in favour of cooperation on defence procurement, an effective commitment has not yet been undertaken, rendering the arrangements agreed as minimal achievements without actual impact. This has been especially true within the institutional context of the European Union, where the regime on defence procurement is made up of Declarations of Intent and no binding provisions. Not directly able to impinge on states' willingness to cooperate, the European Commission has searched, as much as possible, to create the conditions for a more competitive defence market

among European states and to favour rationalization, trying to encompass defence within the rules of the European internal market. Aside from that, the most important achievement has been the creation in 2004 of the European Defence Agency (EDA), committed to form a consistent and overwhelming defence framework within the European context.

What has emerged, though, from these initiatives, is that a broad partnership and the presence of differently-sized states has prevented the realization of significant achievements, while a narrower but similar membership, combined with an intergovernmental approach, has brought about significant results, such as in the cases of LoI Framework agreement and especially of OCCAR (*Organization Conjointe de Coopération en Matière d'Armement*). Of course it is not possible to speak of an all encompassing European approach, because Europe of defence is still 'Europe at six' as some authors have pointed out, and cooperation seems to be strongly related to the structural power possessed. In particular, the bulk of defence production rests within four states: France, Germany, the United Kingdom and Italy. The decision by these states to give birth to a permanent agency (OCCAR) for the acquisition and management of weapon systems in cooperation should be interpreted as an outstanding step forward: the analysis of this organization has made up the content of chapter four.

The reasons behind these states' decision to create OCCAR are different and pertains to each state's strategic aims: for France the creation of OCCAR was above all a way to maintain a leadership within the European defence process; for Germany to take forward some important weapon systems and confirm its reliability as paramount European partner; for the United Kingdom the participation was necessary so as to keep a double track on defence matters and try to have a say on the development of the European defence stance; finally, for Italy, cooperation was almost a compulsory step after all the other powerful states did decide in favour of the structure. All the states, though, were constrained by the same aforementioned pressures and found in their interest to coordinate their actions to avoid undesirable outcomes. As in the Concert of Europe, the strategic context did impinge on states' eagerness in favour of cooperation, so that this latter was the best tool for the pursuit of different but not incompatible interests. As explained in the research, OCCAR does not constitute the regime on defence procurement but, because of its principles, norms, rules and decision-making procedures, it is better equipped to provide insights not only for the reasons of cooperation, but also for the shape

coordination did and can assume in defence matters: this will underline the limitations but also the threshold overcome by national states.

As recalled, the first chapter presents a section called 'theoretical tool for the empirical analysis' as an attempt at summing up the theoretical underpinnings developed and at applying and confronting them with the reality at hands: the ability to interpret and explain the situation, and therefore the relevance of this research also for future analyses, will be determined by the validity and the adherence to reality of the arguments made.

As said, security matters do pose challenges to states' willingness to cooperate because these latter are reluctant to bind themselves and to rely on common norms and practices limiting their freedom of action: this is of course the case in the defence procurement regime. Nevertheless, it has been emphasized that some collective actions do not require much more than a minimal agreement by states and low degrees of formalization: this perfectly matches with the looseness of our regime within the European framework and with the intergovernmental rule present in OCCAR, maintaining cooperation under strict political control. It has been argued that while states are reluctant to participate in structures that can potentially tie their hands, participation can be explained by a desire to control other states' actions and limit their room of manoeuvre: this has been the case with the United Kingdom decision to participate in OCCAR (but also in EDA), explicable as a 'defensive cooperation', as underlined in Chapter four. Its participation and its huge power on defence matter have impinged significantly on the organization structure.

The representation of defence procurement as a coordination game has highlighted the willingness to mutually avoid undesirable outcomes: non-interoperable weapon systems, costly procurement programmes, fragmented markets and industries and low capabilities with respect to the United States are among the undesirable outcomes states do share. Coordination is therefore necessary to eschew the likelihood of these events to occur or persist. However, and has foreseen in the theoretical part, states find themselves to face huge 'distributional issues' as each of them tries to reach the most preferred outcome: this has happened both within and outside of the European context. OCCAR' s creation, as seen, was a kind of compromise solution among the four states, where each of them renounced to something. OCCAR' s programmes, to a greater extent, have been and continue to be plagued by huge battles among states that inevitably delay or postpone them. Where a

compromise solution was not found among states, an example being the new decision-making procedure to be established within OCCAR, states did remain within old and inefficient arrangements.

As introduced, defection in a coordination game should come about not because of the hope to achieve an higher reward: producing own weapon systems is today onerous even for powerful states, non-participation may impinge on the long-term European strategy and on the relative competitiveness towards other European states. Instead, defection should be looked at as a dissatisfaction with the cooperative point agreed upon. This has been mirrored for example in France's withdrawal from the MRV programme and Italy's withdrawal from the A400M military transport aircraft. A powerful state is able to afford a going-it-alone strategy, but should pay the consequences of its actions, as appreciated in the United Kingdom withdrawal from the BOXER programme. It is fair to say, though, that the intergovernmental character of the organization and of the other arrangements agreed upon, together with the provision of opting-out and compensation tools render 'defection' in general a less attractive alternative and the Prisoner's Dilemma game less relevant in explaining strategic situations.

Similarly to past security regimes, OCCAR has been created by the most powerful actors within the European landscape as for defence resources: France knew that without the participation of the United Kingdom and of Italy a consistent and thorough European defence might would have been impossible. Together the four states defined the structure of the Organization, each providing an own significant contribution. Together they decided the rules for coordination so as to maintain a fair equilibrium and preserve the own power position within OCCAR: everything suggests this aim, from the votes conferred to Members and the same voting-procedures, from the staff, the headquarters, from the procurement procedures (global balance). This latter, in particular, is depicted as a form of 'compensation' foreseen by the organization both to ease cooperation and preserve a balanced work-share during time. Also, each state can decide whether to participate or not in a programme managed through OCCAR: this confers the degree of flexibility needed to deem the organization as a valuable cooperation tool.

Considering the 'neo-institutionalist' tools favouring cooperation over time, it is possible to assess, observing OCCAR, that they do not have the same impact as envisioned in the functionalist theories. 'Reputation', for example, while frequently invoked to compel states

compliance, is difficultly a tool fostering or stemming cooperation: while the United Kingdom is said to have ambiguous behaviours toward the European defence, European states do always search its cooperation, and this is so essentially because of its defence capabilities and power. Given that European defence producers are but a few, reputation assumes a clear lower role in favouring or hampering cooperation.

While the regime may help discussion among members and make know each other position, it cannot prominently facilitate information sharing among states, as defence is strictly kept under national control: this has been apparent in the discussion about In-Service Support, where European allies find it difficult to coordinate their actions, and in all the procedures for the classification of information in OCCAR. Finally, 'reiteration' effect is ambiguous: while, for example, the global balance principle assures a fair return in the long-run and therefore incentives reiteration, the likelihood of future encounters may render more harsh the strive for today's compromise, as the returns achieved within it could increase a state's bargaining power and then influence future coordination points. As a result, delays and postponements are likely to plague cooperative efforts.

The relevance of the strongest states within a regime should be evaluated also in the relations entertained with weaker ones, and in particular in the willingness to accept them on the regime or in the conditions posed for their acceptance: in OCCAR we saw that while Founding Members accepted Belgium's candidacy, they pretended that it was conferred less votes than they had. Spain pretended and obtained more votes than Belgium (8) considering itself a more powerful state than Belgium was. As a counterpart to this concession, the Founding Members required that Spain participated in two Programmes. Cooperation arises when it is rewarding, and it is rewarding when there is room for reciprocity or compensations bargaining among similarly powerful states. This may explain why, for example, Founding Members do not seem to pressure to accept new members. A small amount of Members is a sound number to work with both at the decision-making level and to make work some of the agreement reached within OCCAR: global balance, for example, is more easily applicable with a restricted number of actors.

However, the entrance of a new Member State will have to be accepted by the Founding States, and these latter would set the conditions and ask for precise and sometimes hard requests. This practically indicates that Founding Members are able to state the rules of the game.

That said, it should be stressed that OCCAR stands as a paramount achievement: its lessons, therefore, should inform future cooperative proposals. While it is assessed that OCCAR is an intergovernmental structure reflecting its members positions, it is also clear that it is something more to that. First of all, OCCAR is structurally different from pure *ad hoc* agencies because it has a precise procurement model that mirrors none of the internal procurement procedures of its Member states and that is equally agreed upon by all states. Second, every national state has conceded something for the sake of OCCAR's creation because coordination always implies an accommodation among actors, and an institutionalized coordination among similarly powerful actors requires the delineation of common principles, missions, strategic aims. States' decision to insert in OCCAR provisions for mitigating the shortfalls produced by an abrupt withdrawal or a likely event is another example of their willingness to go on with cooperation and punish detrimental behaviours. The same global balance principle was some years ago only a far remote wish for states. In the case of the A400M, states did decide to 'bind' their commitment through the organization in order to get some economic and strategic outcomes out of their cooperative actions, to agree on a precise schedule, to accept OCCAR procurement procedures. Given the number of participating states and the complexities involved in a programme such as this one, OCCAR has certainly eased the organizational procedures. This does not mean that once integrated in OCCAR states do not show different preferences regarding the programme development; to the contrary states do continue to support the preferred arrangements satisfying their own interests, but do this within an institutionalized framework which somehow poses some limitation on their actions.

These achievements should nevertheless take account of a small and similar partnership which in no way find a replication within the European Union context: EDA, even if intergovernmentally shaped, pays the price of a broad membership where often incompatible interests do meet. OCCAR is an example of 'exclusive' but efficient procurement organization because it permits states to achieve their interests: states do want OCCAR to perform beneficial cooperative actions up to the point when their interests and position are not endangered. The coordination achieved for OCCAR's creation has to be constantly re-negotiated whenever a new step has to be undertaken, and this would be hugely painful with a broader and variegated membership.





# Figures

Figure 6 . MOD's top 10 direct suppliers in 2004/2005 showing location of corporate HQ Defence Industrial Strategy Source: Defence White Paper, Presented to Parliament by the Secretary of State for Defence, by Command of her Majesty, December 2005 [http://www.mod.uk/NR/rdonlyres/F530ED6C-F80C-4F24-8438-0B587CC4BF4D/0/def\\_industrial\\_strategy\\_wp\\_cm6697.pdf](http://www.mod.uk/NR/rdonlyres/F530ED6C-F80C-4F24-8438-0B587CC4BF4D/0/def_industrial_strategy_wp_cm6697.pdf)











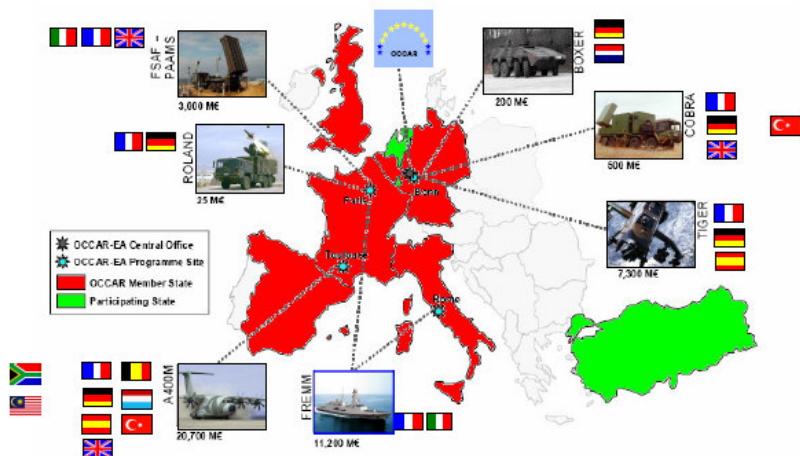
>£1Bn	
BAE Systems	
£500-700M	
QinetiQ	
GD UK	
£300-500M	
MBDA UK	
Rolls-Royce	
Westland Helicopter (Finmeccanica Group)	
BT PLC	
£200-300M	
SERCO	
EDS Defence	
Fujitsu Services	

Figure 9. OCCAR Headquarters. Source: OCCAR Presentation to CNAD, NATO HQ, Richard Burley-Commercial Editor, October 2006-



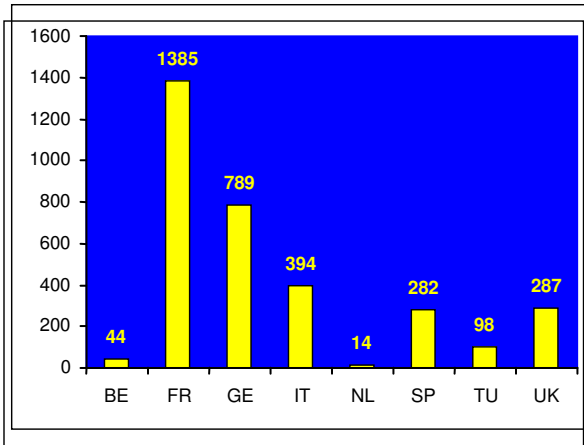


Figure 10: Programme Contributions in Millions of Euros. Source: General Nazzareno Cardinali to the Defence Commission of the Italian Senate, Rome 29 May 2007.

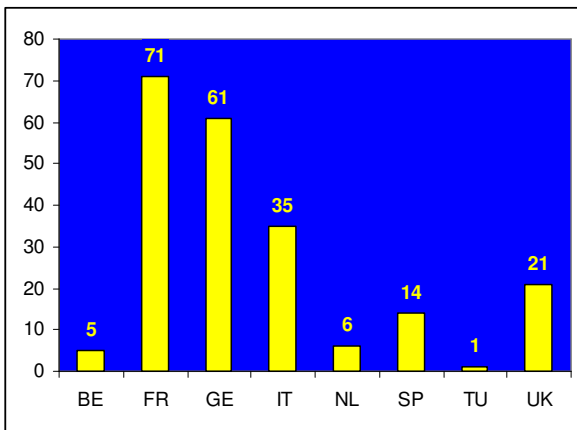


Figure 11: Staff Contribution. Source: General Nazzareno Cardinali to the Defence Commission of the Italian Senate, Rome 29 May 2007.

Figure 18. Work-share of the A400M before Portugal withdrawal and Germany reduced orders. Source: Aviation News, [www.aviation-news.co.uk/a400m.html](http://www.aviation-news.co.uk/a400m.html). Each of the sub-assemblies will be produced by the members nations in different parts of Europe and then delivered to the final assembly-line in Seville, Spain.

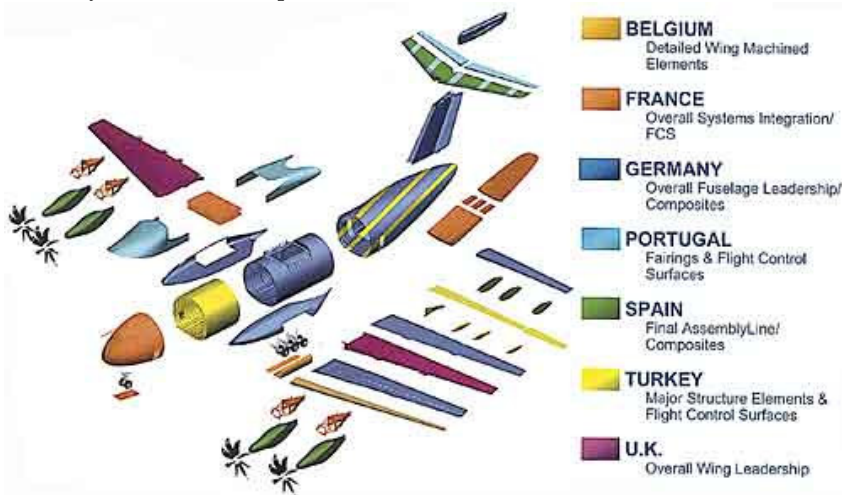
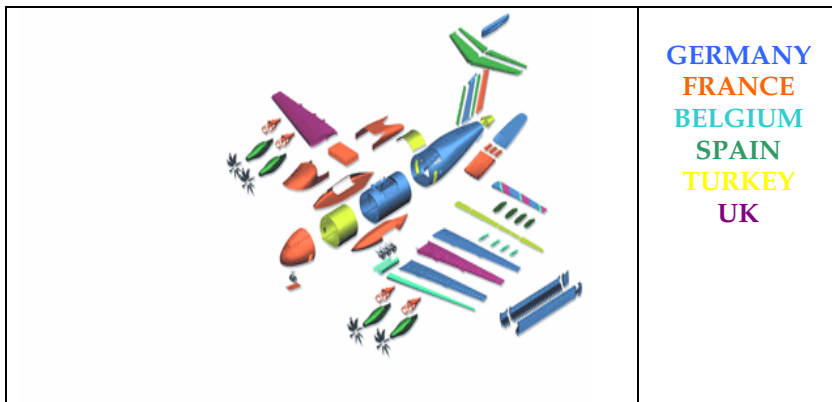


Figure 19: A400M Strategic Workshare. Source: <http://www.airbusmilitary.com/programme.html>



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