

ECONOMIC CHALLENGES FOR EUROPEAN DEFENCE

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Abstract

The issue of a common European Union (EU) defence is on the frontline of political and media discussions, in light of the recent evolutions in the security and defence environment. The main challenge in this respect is related to the realism and feasibility of moving beyond political declarations towards a more concrete implementation of a common defence policy, considering the numerous political, military and economic factors involved. The aim of this paper is to analyse the challenges faced by the concept of a common European defence from an economic point of view, considering the evolution of the defence expenditures in the EU member states, compared to the wider European and the global trend. Also, the paper will focus on the impact the economic crisis and the ensuing austerity measures had on the member states and on their cooperation in developing a common approach on defence, with a view on the ways ahead and recommendations on overcoming the difficult challenges in this respect.

Keywords

Challenges, common, costs, defence, economic, integration, policy.

1. INTRODUCTION

The issue of a common European defence policy, or even the creation of a European army, has received increased attention and has been subject of heated debates, following the recent security and defence evolutions in the European and Middle East areas. The main topics of discussion are related to the degree to

which the EU is willing to and can afford to move towards the creation of a more integrated common defence, considering that beyond the political declarations, this would imply reaching agreements, taking concrete actions and supplying financial support.

The EU project has been developed on the intent to achieve such close economic connections and interdependencies between member states as to make virtually impossible a conflict of the nature of the two world wars. The European security and defence were not explicitly stated in the beginning, as they supposed to derive from the close ties between states. Unfortunately, the current reality shows that this assumption is no longer valid, as economic integration has not worked as planned, leading to the creation of a two speed Europe, leading to the emergence of numerous differences and even dissensions between the member states. These dissensions regard even the economic and political issues that constitute the foundation of the EU (free trade, free movement of persons, convergence criteria etc.), let alone relatively newer developments, such as the Common Security and Defence Policy (CSDP). Many member states are experiencing the resurgence of nationalist and anti-European currents: right wing populist parties are in power in countries such as Hungary, Finland, Latvia, Lithuania, Norway, Switzerland, a coalition of left wing and right wing populist parties is governing Greece, and in countries such as UK, Germany and France, populist parties (UKIP, Alternative fur Deutschland and the French National Front) are gaining more grounds against traditional parties. This trend is also present at the EU level, with about one third of the members of the European Parliament declaring Eurosceptic views, more than double after the 2014 elections (*"How Eurosceptic is the new European Parliament?"*, accessed on November 2, 2016, <http://www.bbc.com/news/world-europe-28107633>). This reflects the discontent of people who no longer relate to the political language and measures of the EU officials, seen as removed from the everyday reality (concerning immigration, job losses, declining living standards, terrorism, multiculturalism etc) and driven by vested interests (the recent scandal concerning the former president of the European Commission, José Manuel Barroso, and his decision to join the investment bank Goldman Sachs, is just one example).

Considering the current security, political and economic environment, the development of a common approach to a European defence is of utmost importance, but at the same time it faces numerous obstacles, of which many of

them are of economic nature. The goal of this paper is to identify the relevant aspects that may constitute a framework for analysis and formulation of proposals, focusing on the challenges faced by the concept of a common European defence. These challenges are mainly analysed from an economic point of view, considering the evolution of the defence expenditures in the EU member states in the years following the onset of the economic and public debt crisis that had serious implications on the European defence capabilities. The paper is also focused towards understanding the economic connections deriving from the security risks and threats faced by the EU and the military capabilities required to counter them, and on formulating conclusions and recommendations that take into consideration the complex dynamic of the political, economic, social and military processes at play within the Common Security and Defence Policy.

2. THE ECONOMIC CHALLENGE OF A EUROPEAN DEFENCE

Probably the most important challenge the promoters of a common European defence have to face is the EU itself – more precisely, the fact that the EU has been primarily designed as a political and economic union of 28 member states, which remain diverse in the level of economic development, political, economic and security priorities, despite the integration efforts. The limits of a political concept in the face of reality have been obvious, even in areas where the integration and coordination mechanisms have existed for a long time, such as the Euro zone or the Schengen area. As the events following the 2008 economic crisis and the more recent immigration crisis have shown, these projects were designed for stability and their reaction in face of unpredictable events demonstrated the limits of European cooperation. Different countries were affected in different degrees by these events and began to favour national political and economic measures and priorities to a common EU view, generating deep divide lines within the EU. For example, Germany's "open door" policy towards migration (driven partly by its own economic interests) generated a lot of criticism from other member states. Some countries that are preferred destinations for migrants demanded "fair burden-sharing" with all the EU members, while other countries such as the Czech Republic, Hungary, Poland and Slovakia strongly opposed the migrant quotas idea, with Hungary even resorting to harsh measures such as building a wall along its borders

The Treaty of the European Union makes reference to a Common Security and Defence Policy, aimed at “providing the Union with an operational capacity drawing on civilian and military assets” (*Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007, Art 28 A*). It also includes a “progressive framing of a common Union defence policy...that will lead to a common defence, when the European Council, acting unanimously, so decides” (*Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007, Art 28 A*). These two statements are important in setting the framework for the EU common defence issue. Firstly, it is the member states that are supposed to provide the military capabilities and civilian assets necessary for its implementation, in other words the EU does not have a common EU military. Secondly, the “common EU defence” will follow a unanimous decision by the European Council, which may be quite challenging to obtain, considering factors such as United Kingdom’s (UK) opposition to the idea and its support to the concept of NATO being the only realistic framework for a European defence and other member countries’ (such as Austria, the Netherlands, Finland, Denmark, Sweden, Ireland) reluctance to enhance the integration towards a common defence.

The fact that the Common European Security and Defence Policy is based on the country specific decisions regarding the level of the military spending is one of the important economic challenges on the road to a real common defence, second to the fact that many EU members are also NATO members. Member states have different levels of defence spending, different national policies and priorities in regard to defence and security issues. While countries like France clearly state as strategic priorities the protection of its national territory, together with stabilizing Europe’s near environment, with partners and allies and contributing to the stability of the Middle East and the Persian Gulf (“*French White Paper on defence and national security 2013*”, accessed on November 10, 2016, http://www.livreblancdefenseetsecurite.gouv.fr/pdf/the_white_paper_defence_2013.pdf), other member states have lower levels of ambition, mainly focused on defending the national territory, and this is reflected in the level of defence expenditures (as seen in figure 1).

The concept of European Security and Defence Policy, although endorsed by all the member states, was based extensively on the collaboration efforts of three states: France, Germany and UK, following the 1998 Saint Malo Declaration

("Joint declaration issued at the British French summit, Saint-Malo, France, 3-4 December 1998", accessed on September 30, 2016, <http://www.consilium.europa.eu/uedocs/cmsupload/French-British%20Summit%20Declaration,%20Saint-Malo,%201998%20-%20EN.pdf>).

Within the limits of non-duplication of NATO's command and control structures, the UK was one of the promoters of the Common Security and Defence Policy, through political actions and contribution with resources and military forces. The United Kingdom's approach to the Common Security and Defence Policy began to change long before the moment of Brexit, starting with 2010, after the coalition cabinet led by David Cameron came to power. It led to a gradual withdrawal from the project and an increased promotion of NATO and bilateral partnerships as the main ways of ensuring Europe's defence.

Since the Brexit, it seems that the burden driving forward the common European defence will fall on the two remaining countries. France and Germany have a history of strong political cooperation in the security and defence area, with common armament programs, the creation of the Franco-German Brigade and many treaties that contributed to the development of the defence cooperation at EU level. Still, they are yet to find a more decisive path to military cooperation, as they have different views on security, the role of the military, the extent of military forces involvement in various types of operations, on defence industry etc. Germany has so far favoured the soft power approach, leaning towards the lower end of the intensity spectrum, requiring the approval of the Parliament for any out of area missions (*"Out of Area Operations", accessed on October 25, 2016, <http://www.globalsecurity.org/military/world/europe/de-policy-out-of-area-ops.htm>*); while France has traditionally had higher strategic and military ambitions, favouring the need to retain the ability to act autonomously to protect its interests (*"French White Paper on defence and national security 2013", accessed on November 10, 2016, http://www.livreblancdefenseetsecurite.gouv.fr/pdf/the_white_paper_defence_2013.pdf*).

A recent memorandum between the two countries, entitled 'A strong Europe in the world of uncertainties', signals the will of the two to enhance the cooperation in defence matters and drive the European Security and Defence Policy further, by stating that the "EU will in future be more active in crisis management" (Ayrault, Jean-Marc, Steinmeier, Frank-Walter, "A strong Europe in a world of uncertainties," accessed on October 20, 2016, <http://statewatch.org/news/2016/jul/de-fr-strong-europe-eu-security-compact.pdf>) and proposing a "European Security

Compact”, made up of a core of military capabilities sufficient to deal with emerging crises, including a deployable high-readiness forces, supported by a framework of common military spending plans and investments in conflict prevention (Ayrault, Jean-Marc, Steinmeier, Frank-Walter, “ A strong Europe in a world of uncertainties,”, accessed on October 20, 2016, <http://statewatch.org/news/2016/jul/de-fr-strong-europe-eu-security-compact.pdf>). The document offers an interesting approach to a potential increase in the common European defence, aiming to further promote the EU as a security and defence actor, favouring a more comprehensive approach and using all policy instruments. In this sense, emphasis is placed on the need for better crisis prevention and management capabilities, on improved planning and conduct of military and civilian operations, supported by a permanent civil-military chain of command, and even on the development of EU owned capabilities in maritime or other areas. The document (Ayrault, Jean-Marc, Steinmeier, Frank-Walter, “ A strong Europe in a world of uncertainties,”, accessed on October 20, 2016, <http://statewatch.org/news/2016/jul/de-fr-strong-europe-eu-security-compact.pdf>) acknowledges that in order to achieve these ambitious objectives, the EU members need to increase their financial commitments, both in terms of defence budgets (and the share of the national defence budgets allocated on procurement and R&D) and also in terms of establishing a framework for the common financing of the operations.

From the perspective of defence planning, setting clear goals, objectives, priorities and level of ambition for defence is the starting point for the planning process and in clear connection with the level of resources the country is willing to allocate for defence. This is usually done in the White Paper of Defence, crucial document that defines and if necessary adapts the defence policy priorities for a country, together with setting a ceiling for the defence expenditures for the planning cycle. This ceiling is usually expressed as % of the Gross Domestic Product (GDP) to be allocated for defence. From this perspective, the development of a European White Paper of Defence would be an important and necessary step forward towards a common European defence, by translating the political Global Strategy into more specific defence goals, objectives and priorities, accompanied by a commonly agreed guideline regarding the level of resources to be allocated for defence, individually by member states and, if deemed necessary, in the form of a common financing framework.

While NATO reiterated at the Wales Summit its pledge to increase the member's defence expenditures up to the guideline of 2% of GDP (*North Atlantic Treaty Organization, "Wales Summit Declaration," September 5 2014, accessed on October 19, 2016, www.nato.int/cps/en/natohq/official_texts_112964.htm*), the European Union does not have such a benchmark. Although there are currently some references regarding the defence expenditures, at the level of the European Defence Agency, they refer to the percentages of defence equipment procurement and R&D expenditure as % of total defence expenditure and not to the overall defence expenditures level. As a result, the reference to the need to increase the European defence expenditures often takes as reference the NATO 2% guideline, considering that many EU member states are also NATO members (*Giuliani, Jean-Dominique, Réassurer la défense de l'Europe par un Traité entre La République fédérale d'Allemagne, la République française et le Royaume-Uni de Grande-Bretagne et d'Irlande du Nord pour la défense et la sécurité de l'Europe, accessed on October 10, 2016, <http://www.robert-schuman.eu/fr/doc/questions-d-europe/qe-405-fr.pdf>*).

If we were to adopt this reference for the required member states defence expenditures, the SIPRI data for 2015 (*"Stockholm International Peace Research Institute (SIPRI) databases", accessed on October 12, 2016, <https://www.sipri.org/>*) shows that only 4 states (Estonia, France, Greece, and UK) are reaching or exceeding 2% of GDP for defence. Surprisingly, only two of the top five biggest spenders on defence within the EU (France, UK, Germany, Italy, and Spain) exceed the 2% of GDP threshold, with Germany, Italy and Spain falling below it. Although the 2% guideline is traditionally used as a convenient measure when comparing European defence levels with those of other countries, especially the US, it presents only a limited picture regarding the defence expenditures effort. In this sense, a more relevant indicator of a government's political will and defence policy would be the defence expenditures as percentage of the yearly government spending, as it refers to real financial allocations.

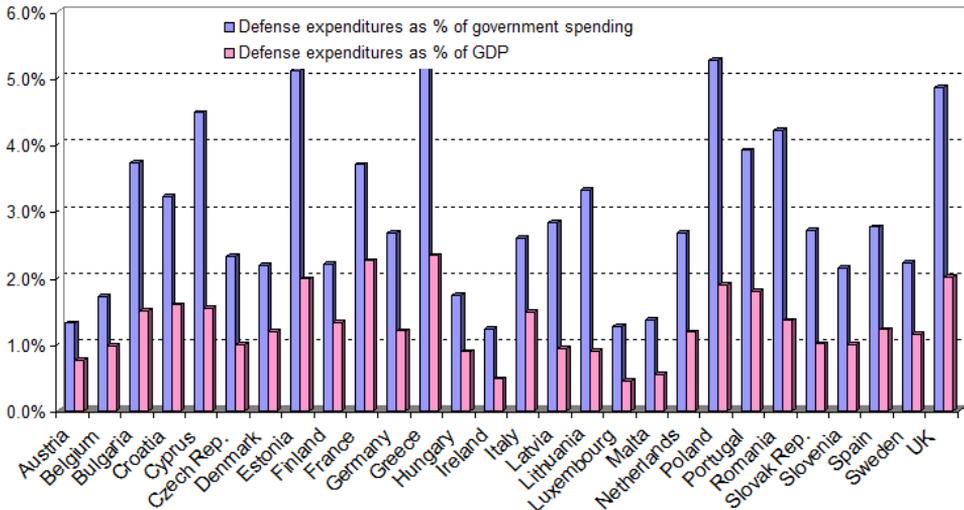


Figure 1 – Defence expenditures as % in NATO countries in 2015

Source: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, <https://www.sipri.org/databases>

As shown in the Figure 1, regarding the year 2015, even though Cyprus spends “only” 1.6% of its GDP for defence, it actually allocates for defence over 4% of its annual government spending, placing it in the same category with Estonia, Greece, Poland and UK, that spend over 2% of GDP for defence, and over one of the most important countries behind the idea of common European defence, namely France, which allocates 3.7% of its annual government spending. A number of Eastern and Southern European countries (Bulgaria, Croatia, Lithuania, Poland and Romania) share the category of 3 to 4% annual government spending with France, with other 11 countries falling in the 2 to 3% annual government spending. Surprisingly considering the size of its economy, but unsurprisingly considering its reticence to engagements in military operations, Germany does not meet the 2% of GDP guideline. Although it remains the third biggest European spender on defence in 2015, its defence spending remains below a number of other EU member states, amounting to 1.2% of GDP and 2.7% of its government spending. One of the reasons being this

apparently moderate level of defence expenditures, considering the country's economy and its political support of a common European defence, lies it Germany's unwillingness to become one of the leaders in the EU's transition from soft power (underlined by economic and diplomatic actions) towards hard power, supported by an increased level of military capabilities.

Increasing the level of defence spending at the EU level to the NATO guideline of 2% would be economically unrealistic, considering the amounts calculated by the author based on the Stockholm International Peace Research Institute (*SIPRI Military Expenditure Database*, accessed on October 12, 2016, <https://www.sipri.org/databases>), outlined in the Table 1.

Table 1 – Increases in defence expenditures at EU level

| | Military expenditures 2015, in US \$ m. 2015 prices & exchange rates | Increase in defence expenditures required to reach the benchmark, US \$ m. 2015 prices & exchange rates | Increase in defence expenditures as % of the GDP, required to reach the benchmark | Increase in defence expenditures as % of the 2015 defence expenditures, required to reach the benchmark |
|------------|--|---|---|---|
| Austria | 3,006.03 | 5,582.62 | 1.30% | 185.7% |
| Belgium | 4,952.78 | 6,053.40 | 1.10% | 122.2% |
| Bulgaria | 797.10 | 341.61 | 0.60% | 42.9% |
| Croatia | 904.37 | 226.09 | 0.40% | 25.0% |
| Cyprus | 427.37 | 47.49 | 0.20% | 11.1% |
| Czech Rep. | 2,099.31 | 2,099.31 | 1.00% | 100.0% |
| Denmark | 4,130.11 | 2,753.40 | 0.80% | 66.7% |
| Finland | 3,563.02 | 1,918.55 | 0.70% | 53.8% |
| Germany | 47,045.50 | 31,363.67 | 0.80% | 66.7% |
| Hungary | 1,224.55 | 1,836.83 | 1.20% | 150.0% |
| Ireland | 1,188.15 | 4,752.59 | 1.60% | 400.0% |

| | | | | |
|---|-----------|-----------|-------|---------------|
| Italy | 28,459.95 | 15,324.59 | 0.70% | 53.8% |
| Latvia | 340.54 | 340.54 | 1.00% | 100.0% |
| Lithuania | 566.38 | 463.40 | 0.90% | 81.8% |
| Luxembourg | 361.80 | 1,085.39 | 1.50% | 300.0% |
| Malta | 66.14 | 154.34 | 1.40% | 233.3% |
| Netherlands | 10,476.48 | 6,984.32 | 0.80% | 66.7% |
| Portugal | 4,379.62 | 230.51 | 0.10% | 5.3% |
| Romania | 2,980.30 | 1,277.27 | 0.60% | 42.9% |
| Slovak Rep. | 1,164.22 | 952.54 | 0.90% | 81.8% |
| Slovenia | 488.78 | 488.78 | 1.00% | 100.0% |
| Spain | 16,928.88 | 11,285.92 | 0.80% | 66.7% |
| Sweden | 6,578.38 | 5,382.31 | 0.90 | 81.8% |
| <i>*The EU member states spending more then 2% of GDP for defence have not been included in the</i> | | | | |

Source: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, <https://www.sipri.org/databases>, data processed by the author

Based on the level of the military expenditures and the level of the Gross Domestic Product of the EU member states in 2015, the table 1 outlines the increase in defence expenditures (in real value expressed in US \$ millions, and in % of the GDP, required for each member state if it were to reach the benchmark of 2% of GDP allocated for defence - columns 3 and 4). Column 5 shows the percentage increase in the defence expenditures (as compared to the 2015 level) required in order to reach the benchmark considered. From the point of view of the increase in the amount of defence expenditures required to reach the 2% threshold, the amounts are impressive. Germany would have to potentially increase its defence expenditures with 31 billion USD, Italy with 15 billion USD, Spain with 11 billion USD, Netherlands with 6.9 billion USD, while Romania would have to add an additional 1.2 billion USD to its defence budget. In terms of percentage increases in the defence expenditures compared to the 2015 level, the biggest increase would potentially have to be supported by Ireland, with

400% increase, followed by Luxemburg with 300%, Malta with 233% and Austria with 186%.

Even if the EU member states were to increase their defence expenditures to NATO's recommended 2% benchmark, there is still the issue of the real output generated by those expenditures. Money spend for defence is an input, while the output may be measured in forces (as a quantitative measurement) or capabilities, level of readiness and sustainability (as qualitative measurements). These indicators are already used by the EU, historically through the operational demands under the Helsinki Headline Goal (Council of the European Union, Presidency conclusions, Helsinki, 10–11 Dec. 1999) and the capability targets set in the European Capability Action Plan ("*Council of the European Union, Presidency conclusions, Laeken, 14–15 Dec. 2001*", accessed on October 10, 2016, <https://www.consilium.europa.eu/uedocs/cmsUpload/European%20Capability%20Action%20Plan%20-20Excerpt%20Press%20Release%20November%202001.pdf>). Through the European Defence Agency's Capability Development Plan (CDP), the EU member states should have a clear picture of the European military capabilities, from short to long term. Still, although the aim of CDP is to inform member states and help national defence planners to develop their own national plans, identify priorities and opportunities for cooperation and to support a the integration of technology into military capabilities, it is not a supranational plan. The development of integrated European capabilities require time, resources and political will, difficult to provide in an environment of resurging nationalism and economic austerity, characterized by budget cuts and an increase tendency to protect the interests of national defence producers. Also, even if member states would have sufficient military capabilities, the use of the respective capabilities in specific operations is strictly at the decision of each nation, and few EU member states are willing to deploy forces, bear the costs of sustaining them and incur the military and political risks of getting involved in operations. At the same time, the issue of avoiding duplication with the NATO capabilities needs to be carefully considered. Thus, establishing a benchmark regarding expenditures as % of GDP is more useful as a political statement than a real indicator of the dimensions and quality of European capabilities.

The need for EU member states to increase/ maintain a sufficient level de defence capabilities to counter the challenges of the current security environment may get into conflict with economic and fiscal considerations, regarding the requirements related to fiscal discipline. According to Eurostat data (*Government*

deficit and debt, , accessed on October 10, 2016, <http://ec.europa.eu/eurostat/data/database>) of 2015, 5 of the member states have exceeded the requirements for fiscal discipline regarding the ratio of the government deficit that should not exceed 3% of GDP (Greece with -7.2%, Spain with -5.1, France with -3.5 and Croatia with -3.2, Portugal with -4.4%) and the average government deficit to GDP ratio at the level of the EU was in 2015 of -2.4%. Considering the convergence criteria, the effects of the economic crisis on the European economies, the subsequent sluggish economic recovery and the austerity trend prevalent at the EU level, from an economic point of view it is highly improbable that the member states will consider such a dramatic increase in their defence expenditures, even in light of the latest security and defence environment trends.

Another issue that needs to be taken into consideration in respect to the common European defence is that increased defence expenditures from the member states do not automatically mean an increase in output or effectiveness at European Union level. According to the SIPRI data (*“Stockholm International Peace Research Institute (SIPRI) databases”*, accessed on October 12, 2016, <https://www.sipri.org/>), the total military expenditures of the EU member states (even excluding the UK), still exceed the military expenses of China (although the trend moves towards closing the gap) and were 3 times bigger than the military expenses of Russia in 2015.

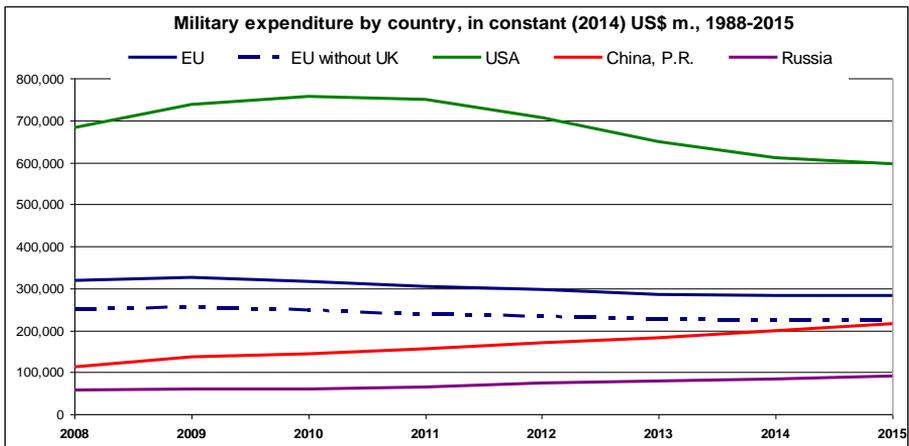


Figure 2 – Military expenditures by country in constant (2014) US\$

Source: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, <https://www.sipri.org/databases>

In terms of the armed forces personnel, according to the World Bank data (*Armed forces personnel, total, accessed on October 11, 2016, <http://data.worldbank.org/indicator/MS.MIL.TOTL.P1>*) for 2014, the added number of people in the militaries of the European Union member states was 2,149,800 people, a higher number than even the United States with 1,381,250 and the Russian Federation with 1,287,000, with the largest army in terms of personnel, China, registering 2,993,000.

Table 2 - Military expenditure by country, in constant (2014) US\$ m., 1988-2015

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------|---------|---------|---------|---------|---------|---------|---------|
| EU | 324,674 | 316,142 | 304,048 | 296,730 | 285,577 | 282,823 | 281,859 |
| EU - UK | 253,995 | 246,949 | 237,777 | 233,284 | 224,810 | 223,641 | 222,130 |
| USA | 737,747 | 757,992 | 748,646 | 706,082 | 650,081 | 609,914 | 595,472 |
| China, P.R. | 137,401 | 144,383 | 155,898 | 169,321 | 182,930 | 199,651 | 214,485 |
| Russia | 59,730 | 60,940 | 65,040 | 75,364 | 79,030 | 84,697 | 91,081 |

Source: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, <https://www.sipri.org/databases>

Though impressive, these numbers do not make the EU, as a union of 28 member states, the second military power in the world or even a big military force, and the comparison with other military powers only show a far away potential. The reality is that the EU is encountering challenges even in finding a common approach towards the projection of soft power. The reasons are complex, with one of them related to the fact that the EU is not a single country, lacking a strong political will, a unitary military strategy, unity of command, coherent procurement policies and centralized procurement process, standardized training procedures etc. Although the member states armed forces do work together in various formats, ranging from permanent structures such as the French German Brigade, to multinational exercise or even operations, they are still the result of national defence planning policies and planning. Despite such

initiatives as Pooling and Sharing, aimed at increasing the sharing of military capabilities within EU countries, real European military capabilities, in the true military sense, are not yet a reality, leading to cost inefficiencies, overlaps and waste of resources. Also, the position of one of the key players in the CSDP framework (namely the UK), shared also by other member states, has always been that the framework for the European defence can only be NATO.

In a 2011 report on the impact of the financial crisis on the defence sector in the EU Member States, put together by the Krzysztof Lisek, the European Parliament considers that the defence funds are spend in an inappropriate way, "based on uncoordinated national defence planning decisions, which results not only in persistent capability gaps, but often also in wasteful overcapacities and duplications, as well as fragmented industry and markets, which leads to the EU not having either the visibility, resources or reach of EUR 200 billions' worth of spending" (Lisek, Krzysztof, 2011, *Report on the impact of the financial crisis on the defence sector in the EU Member States, Committee on Foreign Affairs, accessed on October 11 2016, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2011-0428+0+DOC+PDF+V0//EN>*).

The EU member states are currently facing a complex of challenges to their security. One of them is related to the security environment, which has changed drastically in a timeframe of ten years, in the sense of increased security and defence risks (ranging from the migration crisis and terrorism acts to aggressive state policies and potential sources of instability and conflict in the neighbourhood of the EU borders).

A second challenge is related to the composition of the defence spending. The defence area has some particularities that make it even more prone to experience challenges in times of budget cuts, due to the fact that the inflation rate for military equipment is higher than in other economic areas (Alexander, Michael, Garden, Timothy, 2001, 'The arithmetic of defence policy', *International Affairs*, vol. 77, no. 3, pp. 509–29). The defence area is more fuel-intensive than other government sectors, such as health or education, which makes it more prone to cost push inflation. Considering that the steep decline in oil prices began only in 2014, from 2009 to 2013 the already diminishing defence budgets were in reality even lower in real terms, due to higher inflation rates experienced by the defence sector compared to the general inflation rate in a particular country. Also, the costs of defence equipment are very high, considering the lower competition of defence markets and the high R&D ratio in the total costs of the defence equipment. This

led, in the austerity conditions following the onset of the economic crisis, to a decline in the defence investment expenditures and an imbalance between the various categories of expenditures within the EU members defence budgets, especially in relation to the personnel versus investment expenses ratio. This ratio, namely the percentage of the defence budgets spent on personnel versus the percentage spent on equipment procurement or Research and Technology (R&T) is another issue that hampers the effectiveness of the European defence spending. According to the European Defence Agency data for 2014 (*National Defence Data 2013-2014 and 2015 (est.) of the 27 EDA Member States*, accessed on October 12, 2016, [http://eda.europa.eu/docs/default-source/documents/eda-national-defence-data-2013-2014-\(2015-est\)5397973fa4d264cfa776ff000087ef0f.pdf](http://eda.europa.eu/docs/default-source/documents/eda-national-defence-data-2013-2014-(2015-est)5397973fa4d264cfa776ff000087ef0f.pdf)), only 9 of the member states spend less than 50% of their defence budgets on personnel, with an EDA average (27 members, minus Denmark) of 51%. According to the same source, the defence cuts following the onset of the economic crisis have mainly targeted procurement and R&T, followed by operating and maintenance expenses, in an effort from the member states to avoid the social implications of downsizing their militaries or cutting the salaries, but at the same time setting the stage for future ineffectiveness of the forces, generated by older equipment and lack of technological advances.

The operating and maintenance expenses have shown an encouraging trend from 2011, reaching 11.7% of total defence spending at the level of the EDA members, while unfortunately the defence investments (composed of procurement expenses and research and development expenses, including research and technology) have shown a declining trend, reaching only 17.8% in 2014. The R&T expenditures have also been decreasing steadily from 2006, until just 1.02% of total defence spending in 2014 (*EDA DEFENCE DATA 2014*, accessed on October 13, 2016, <https://www.eda.europa.eu/docs/default-source/documents/eda-defencedata-2014-final>). By comparison, in 2014 the US spend 35.5% of its total defence spending on personnel, 26% on procurement and 36.9% on operation and maintenance and R&D expenses (*North Atlantic Treaty Organisation Communiqué, 201, Defence Expenditures of NATO Countries (2008-2015)*, accessed on October 14, 2016, http://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2016_01/20160129_160128-pr-2016-11-eng.pdf).

Further economic issues regarding the efficiency and effectiveness of the EU member states spending derives from the lack of collaboration, of a common

procurement framework, or an integrated defence equipment market. Most of the military equipment procurement and, to a lesser degree, manufacturing, is still done at the national level, based on national legislations and frameworks, generating competition between member states and lack of economic efficiency resulting from economy of scale.

According to the EDA defence data for 2014, EDA members have spent on collaborative procurement 22.1% of total defence equipment procurement expenditures, in other words 77.9% of the procurement expenses were done nationally, outside an EU collaborative framework (*EDA DEFENCE DATA 2014*, accessed on October 13, 2016, <https://www.eda.europa.eu/docs/default-source/documents/eda-defencedata-2014-final>). In regard to research and technology, the collaboration between EDA members was by no means better, with only 9.3% collaborative R&T expenses in total defence R&T expenses (*EDA DEFENCE DATA 2014*, accessed on October 13, 2016, <https://www.eda.europa.eu/docs/default-source/documents/eda-defencedata-2014-final>) – meaning that in terms of R&T, more than 90% is done outside an EU collaborative framework, mainly nationally.

In terms of cooperation, the EDA is not the only framework meant to promote defence cooperation within the EU, as the EU member states have at their disposal a multitude of multinational or bilateral cooperation mechanisms. Although they are a positive first step towards real defence integration, still, from an economic point of view the existence of a real patchwork of structures and organizations, in which some member states participate and others do not, does not allow for increased efficiency of military spending and economies of scale. According to the Treaty of the European Union, “those Member States which together establish multinational forces may also make them available to the common security and defence policy” (*Consolidated version of the Treaty on European Union, Art 42 -3*, accessed on October 15, 2016, <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12008M042&from=EN>), but this does not guarantee that these forces will have the required level of interoperability to be able to operate effectively in cooperation with the capabilities provided by member states not part of those multinational forces (unless, of course, all are part of NATO, which furthers the argument of those supporting NATO as the only viable mean for a European defence).

3. MULTINATIONAL COOPERATION STRUCTURES OUTSIDE THE LEGAL FRAMEWORK OF THE EU BETWEEN MEMBER STATES

Despite the fragmentation of the cooperation frameworks within the EU, one of the implications of the economic crisis has been an increased interest from the member states in defence cooperation. The austerity measures and the ensuing defence budget cuts have prompted the need to make a more effective use of the limited resources available, although most initiatives have been at bilateral and multilateral level, as consensus between all EU members is still a desiderate. From all the cooperation initiatives following the year 2009, outlined in the table 3, the Ghent initiative is the only one that brings an element of novelty and provides a truly European framework for cooperation. Other forms of cooperation, such as NORDEFECO (between Denmark, Sweden, Finland, Norway, Iceland), Weimar Plus (between Germany, France, Poland, Spain, Italy), the Dutch-German Defence Cooperation or the Polish-German Defence Cooperation are only bilateral or at best multi-lateral cooperation frameworks, based on geographical location or political inclinations and cannot be considered as European initiatives.

Table 3 – EU states involvement in various multinational cooperation structures

| | Finabel | European Corps Eurocorps | European Gendarmerie Force | European Air Transport Command | European Air Group | European Maritime Force | Movement Coordination Centre Europe | Organization for Joint Armament Cooperation |
|------------|---------|--------------------------|----------------------------|--------------------------------|--------------------|-------------------------|-------------------------------------|---|
| Austria | - | - | N/A | - | - | N/A | Member | - |
| Belgium | Member | Member | N/A | Member | Member | | Member | Member |
| Bulgaria | - | - | - | - | - | - | - | - |
| Croatia | - | - | N/A | - | - | - | Member | - |
| Cyprus | Member | - | N/A | - | - | - | - | - |
| Czech Rep. | Member | - | N/A | - | - | N/A | Member | - |
| Denmark | - | - | N/A | - | - | - | Member | - |
| Estonia | - | - | N/A | - | - | - | Member | - |
| Finland | Member | - | N/A | - | - | - | Member | Participate |
| France | Member | Member | Member | Member | Member | Member | Member | Member |
| Germany | Member | Member | N/A | Member | Member | - | Member | Member |

| | | | | | | | | |
|-------------|--------|------------|---------|--------|--------|--------|--------|-------------|
| Greece | Member | Associated | N/A | - | - | - | - | - |
| Hungary | Member | - | - | - | - | N/A | Member | - |
| Ireland | - | - | N/A | - | - | - | - | - |
| Italy | Member | Associated | Member | Member | Member | Member | Member | Member |
| Latvia | Member | - | N/A | - | - | - | Member | - |
| Lithuania | - | - | Partner | - | - | - | Member | - |
| Luxembourg | Member | Member | N/A | Member | - | N/A | Member | Participate |
| Malta | Member | - | N/A | - | - | - | - | - |
| Netherlands | Member | - | Member | Member | Member | - | Member | Participate |
| Poland | Member | 2017 | Member | - | - | - | Member | Participate |
| Portugal | Member | - | Member | - | - | Member | Member | - |
| Romania | Member | Associated | Member | - | - | - | Member | - |
| Slovak Rep. | Member | - | N/A | - | - | N/A | Member | - |
| Slovenia | Member | - | N/A | - | - | - | Member | - |
| Spain | Member | Member | Member | Member | Member | Member | Member | Member |
| Sweden | Member | - | N/A | - | - | - | Member | Participate |
| UK | Member | - | N/A | - | Member | - | Member | Member |

Source: <http://www.finabel.org>, www.eurocorps.org, www.eurogendfor.org, eatc-mil.com, www.euroairgroup.org, www.euromarfor.org, [mccce-mil.com](http://www.mcce-mil.com), <http://www.occar.int>

As table 3 outlines, the multinational cooperation structures between various EU member states looks like a patchwork of initiatives, with various degrees of correlation and integration. Although they are a step forward towards an increased level of cooperation in defence matters, they are not sufficient to provide credible European defence capabilities.

4. EFFECTS OF THE ECONOMIC CRISIS OF THE EU DEFENCE EXPENDITURES

Yet another challenge derives from the response capacity of the European member states armed forces, which has been negatively affected over the last ten years by the austerity measures following the economic crisis. According to the SIPRI data ("Stockholm International Peace Research Institute (SIPRI) databases", accessed on October 12, 2016, <https://www.sipri.org/>), most EU member states have

been forced, as a result of the economic crisis and the ensuing public debt crisis, to resort to major budget consolidation measures, with negative effect on the defence expenditures. As an average, the total EU (at 28 members) defence expenditures have decreased in 2010 with 2,63% compared to the 2009 and with 3,83% in 2011 compared to 2010. The year 2013 also marked a steep decline in defence expenditures, lower with 3.76% than those for the previous year.

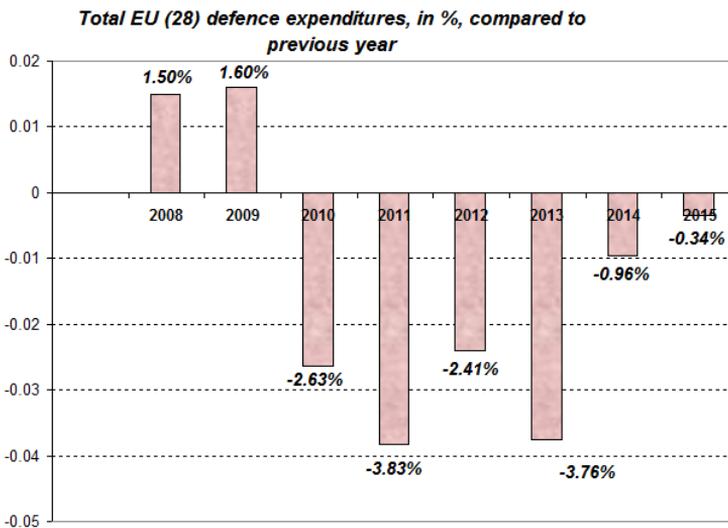


Figure 3 – Total EU (28) defence expenditures in % compared to previous year

Source: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, <https://www.sipri.org/databases>

Among the EU member states, there were a few notable exceptions in relation to the EU trend of diminishing defence expenditures. According to the SIPRI data for 2016 (*“Stockholm International Peace Research Institute (SIPRI) databases”*, accessed on October 12, 2016, <https://www.sipri.org/>), Poland is the only country who managed not to cut its defence expenditures after 2008, while Sweden had lower defence budgets compared to previous years just in 2009 and 2011.

All the other EU member states have made cuts to their defence budgets, starting from 2009 or with a slight delay. Even Germany had a significant 5.77% cut in its 2013 expenditures compared to the previous year, while some smaller member

states registered the biggest cuts, such as Estonia in 2010 compared with 2009 (-22.09%), Latvia with -36% in 2009 compared to 2008 and -24.28% in 2010 compared to 2009, and Lithuania with -24.54% in 2009 compared to 2008 and -16.54% in 2010 compared to 2009. Although Romania also suffered from defence expenditures cuts, they have not been as drastic, as its defence budget decreased compared to the previous year, with 4.97% in 2009, with 7.90% in 2010 and with 2.72% in 2012. Starting with the year 2013, the Romanian defence expenditures trend has been on an upward trajectory, with the defence expenditures in 2015 registering a 10.73% increase from the 2014 level.

The different levels of defence cuts derived from the importance the various governments attributed to the defence area compared to other government areas, but also from the state of the economy in various member states. The level and the schedule of the cuts have not resulted merely from economic and fiscal calculations, but they reflected the political decision and the extent the defence area was linked to the national interests. Some countries, such as Greece, were indeed forced by the state of their economy to operate drastic cuts in their defence budgets. The onset of the Greek government debt crisis in 2010, and the danger of sovereign default without a bailout, combined with the result of the austerity measures imposed as conditions by the European Commission, European Central Bank and the IMF for the bailout loan have triggered a massive reduction of the Greek defence expenditures of 23.15% in 2010 compared to 2009, of 19.49% in 2011 compared to 2010, of 11.55% in 2012 compared to 2011 and of 6.62% in 2013 compared to 2012.

The SIPRI data (*“Stockholm International Peace Research Institute (SIPRI) databases”, accessed on October 12, 2016, <https://www.sipri.org/>*) shows that the implications of the economic and debt crisis on the defence expenditures varies, from no implications for states like Poland and Sweden, whose defence expenditures even registered an increase, to very serious implications for countries like Greece (in 2015 the defence expenditures were 41.36% lower than in 2008), Latvia (-41.35%) and Slovenia (-40.52%). As compared to the defence expenditures levels of 2008, before the onset of the economic crisis, most countries have registered some reductions, ranging from -30.67% Italy to 13.85% the UK. A few other EU member states managed to avoid big defence expenditures cuts, or recover them overtime, such as Cyprus (with 2015 defence expenditures just 2.62% lower than in 2008), Finland (-1.38%), France (-5.27%), Germany (-0.12%) or Portugal (-6.19%).

The differences in the implications of the economic factors on defence expenditures derive from economic, political and military considerations, specific to each member state, such as the security environment, the importance of defence in the national policy, the country level of ambition, the characteristics of the military system and the state of the national economy.

For instance, Germany, although a strong promoter of fiscal discipline and austerity measures, did not make spectacular cuts to its defence expenditures over the 2008-2015 period, with the exception of year 2013, with defence expenses 5.77% lower than in 2012, in spite of the pressures from the Finance ministry and the fact that even German economy incurred a national debt of 75% GDP in 2010 (*Estimation of the IMF for 2010*, http://www.economywatch.com/economic-statistics/economic-indicators/General_Government_Gross_Debt_Percentage_GDP/, accessed on May 7, 2016). France, although it did reduce its defence spending, attempted to protect the defence sector from cuts, even if its economy was affected by the crisis and following recession.

The strategy and the schedule of the defence cuts were also different. Some smaller countries (such as the Baltic states) performed the most serious cuts in one year or two years (Estonia -22.09% in 2010 compared to previous year, Latvia -36.49% in 2009 and -24.28% in 2010 compared to previous year and Lithuania, -24.54% in 2009 and -16.53% in 2010 compared to previous year), with subsequent increases that eventually recovered the defence expenditures level to the one before the crisis. Other countries preferred a more gradual, but continuous decline in their defence expenditures, such as Belgium, Italy or Hungary.

One of the issues related to cutting the defence expenditures is the relative rigidity of the defence area, the lack of flexibility and mobility of the personnel on the labour market and the difficulty in achieving the proper balance between cost savings and capability effectiveness. In terms of categories of expenses within the defence budget, most EU countries allocate a large percentage of their financial allocations for personnel, due to the often large MoD structures and top-heavy armed forces. Reducing or freezing salaries or downsizing the personnel numbers may be obvious solutions on paper, but the reality is often more complicated, as some member states armed forces are already functioning with streamlined forces, and a further reduction would compromise the military effectiveness and the capability to really deliver the required defence output, within the NATO, EU or even at national defence level. Also, restructuring an

armed force takes time, and is not without costs. In some countries, such as Greece, the number of people employed in the military is not insignificant (2.7% of the workforce in 2013 (*Dempsey, Judy, January 7, 2013, "Military in Greece is spared cuts", accessed on October 16, 2016, http://www.nytimes.com/2013/01/08/world/europe/08iht-letter08.html?_r=0*), and an abrupt downsizing, even in austerity times, can have negative economic effects. Even if, at the level of the EDA member states, the number of military personnel has been on a downward trend since 2008 (from an aggregated total of 1800707 people in 2008 to 1423097 in 2014 (*"Defence data portal", <https://www.eda.europa.eu/info-hub/defence-data-portal/EDA/year/2014#>*), the more realistic solution of freezing or cutting wages was embraced in a number of countries, including Romania, but with negative effects on morale and effectiveness.

Cutting defence procurement expenditures was also an option considered by many EU member states as a way of decreasing defence expenditures. The aggregated figures show that at the level of the EDA member states, procurement expenditures decreased from 33270 million EUR in 2008 to 32514 million in 2009. In 2010 they registered a brief recovery (to 334309 million EUR), followed by a downward trend (30598 million EUR in 2011, 31505 million EUR in 2012, 29973 million EUR in 2013 and 25896 million EUR in 2014) (*"Defence data portal", accessed on October 17, 2016, <https://www.eda.europa.eu/info-hub/defence-data-portal/EDA/year/2014#2>*).

Although almost all EU member states experienced reductions in their defence equipment procurement after 2008, the level of cuts has been influenced by national considerations regarding the state of the economy and national policy of protection of own defence industry. Countries like France and Germany attempted to protect their defence producers, by performing limited procurement and modernization programs cuts and postponements. By comparison, as presented in the table below, the negative effects on the procurement and modernization programs in countries like Romania and Bulgaria were felt more acutely, especially between 2009 and 2012. One of the most dramatic decreases was in the case of Greece, following the debt crisis.

Table 4 - Defence equipment procurement, in million EUR

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------|------|------|------|------|------|------|------|
| Bulgaria | 170 | 92 | 97 | 40 | 22 | 32 | 6 |
| Romania | 344 | 149 | 119 | 128 | 68 | 198 | 320 |
| Portugal | 340 | 355 | 289 | 297 | 255 | 260 | 343 |
| Finland | 655 | 736 | 698 | 457 | 623 | 588 | 433 |
| France | 6258 | 6871 | 8272 | 7534 | 8456 | 8816 | 6134 |
| Germany | 5323 | 5198 | 5658 | 5804 | 5476 | 5094 | 3781 |
| Greece | 2129 | 2128 | 1138 | 293 | 320 | 481 | 322 |

Source: <https://www.eda.europa.eu/info-hub/defence-data-portal>

In addition to the issue related to the domestic defence industry, another challenge related to decreasing defence expenditures through reductions in the defence procurement area is related to the relative rigidity of the sector. Defence procurement contracts are often on medium and long term, and cancelling such a contract entails penalties that may generate costs in excess of the savings resulting from the cancellation.

From the point of view of the European capabilities, the reductions in defence procurement following the economic crisis only enhanced the already existing issues related to the need to increase the technical sophistication of the member states armed forces and their relevance in military operations.

Even in the midst of the economic crisis, most EU countries did not reduce their level of ambition. Following the recent changes (starting with 2014) in the security and defence environment in Europe, the downward trend related to defence expenditures seems to be reversed. As seen in the figure below, as compared to 2014, 18 member states (excluding UK) have increased their defence spending, but this modest increase remains insufficient to cover the needs of a truly functional European defence, independent of US support through NATO.

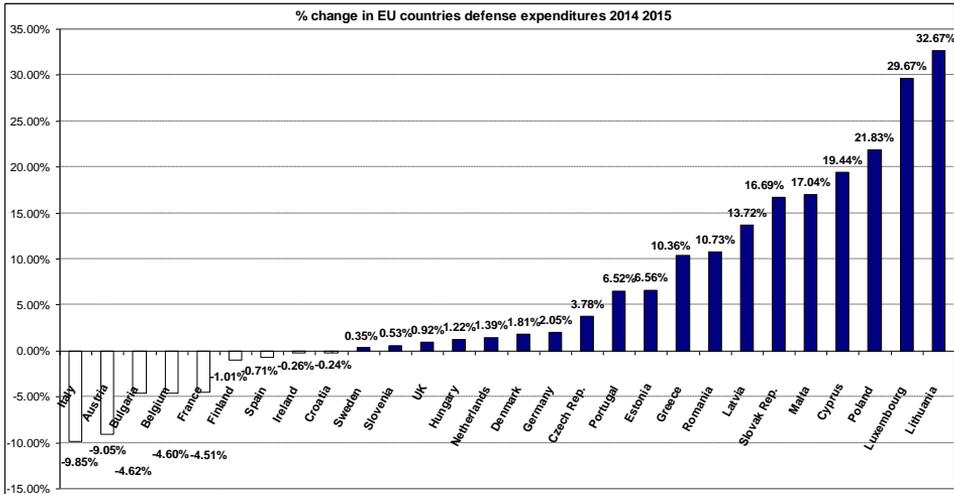


Figure 4 – Defence expenditures change in % 2014 vs. 2015

Source: Stockholm International Peace Research Institute, SIPRI Military Expenditure Database, <https://www.sipri.org/databases>

Although most EU members have stated their willingness to improve the sustainable deployability in theatres of operations outside the EU territory, this interest remains in the political statements framework. Excluding UK, many EU countries state their goal to maintain forces capable of full spectrum operations, only the bigger EU countries, such as France, Germany, Italy or Spain are currently at the level of being able to provide full spectrum forces. The trend for the medium size and small member states has been to move towards specialization and niche capabilities. Although many such countries have become very proficient in the niche capabilities and specialization, the aggregated forces at EU level are currently insufficient to ensure a truly European defence, without increased cooperation, coordination and integration, supported by substantial investments in equipment procurement, modernization and personnel training.

Common financing may be a solution to the current challenges related to a European defence, as currently only a small part of the EU military operations is commonly financed. Especially in terms of research and development, the data

on the member states defence expenditures clearly show that, with the exception of France and Germany (excluding UK), most of the other countries do not have the financial means to embark in extensive research and development programs, although they would be essential for the improvement of the technological level of their armed forces, but also if the Europeans want to ensure greater autonomy in terms of defence from the US. Most of the EU members do engage in defence research programs, but of small scale. Pooling the research funds could bring benefits from economies of scale and exchange of know-how, but this collaboration is not easy to achieve, due to concerns about intelligence and know how contractors leaks, but also due to national protectionist policies towards the domestic defence industry.

Currently, at the level of the EU there are a number of mechanisms that allow for common financing of crisis management military operations, but they need to be reformed and improved, as they have been proven insufficient so far:

-the common budget for CSDP finances only civilian operations (such as an observer mission or police mission, which consume approximately 80-90% of the CSDP budget ("*European Union External Action*", accessed on October 12, 2016, https://eeas.europa.eu/headquarters/headquarters-homepage/82/about-the-european-external-action-service-eeas_en); the funds allocated for 2016 were in amount of 326.8 million EUR, representing an increase of 5 million USD compared to 2015 (idem).

The Athena mechanism is based on member states (except Denmark) contributions and is financing only military operations under EU mandate, obtained with unanimity of votes. Although it has been used to support some of the costs of EU military operations (such as EUFOR ALTHEA in Bosnia Herzegovina, EUNAVFOR ATALANTA in the Horn of Africa, EUTM in Somalia, or EUTM in Mali, to mention just a few), it covers just a small part of the operational expenses, the rest being born by the participating nations.

- the Instrument contributing to Stability and Peace –IcSP, that supports security initiatives and peace-building activities in EU partner countries, focusing on crisis response, crisis preparedness, conflict prevention and peace-building (with funds available in amount of 2 339 million EUR ("*External Action financing instruments*", accessed on October 17, 2016, https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/where-does-money-come/external-action-financing-instruments_en);

- The African Peace Facility, financed through the European Development Fund that supports the costs incurred by African countries that are deploying their peace-keeping forces under the banner of the AU or a REC/RM in another African country, financing missions such as MISOM in Somalia, MISMA in Mali, MICOPAX in Central African Republic.

The EU faces a series of challenges in respect to the financing of a common defence. Beyond the fact that the previously mentioned mechanisms cover just a limited set of common costs, based on contributions from the EU member states based on their GDP (which may give rise to questions related to free riding from smaller member states), there is no current financial cooperation framework to support a truly common security and defence policy. There is no mechanism to commonly finance preparatory activities for military operations, while most of the military operations themselves are financed based on the NATO principle of "costs lie where they fall", meaning that the vast majority of the costs related to a military operation shall be supported by the countries participating to that operation. This leads to a big reluctance from smaller states to get involved in operations outside the EU territory, and the inability of many of the member states to ensure the sustainability of even medium scale operations without support.

4. CONCLUSIONS

One conclusion that can be drawn from the analysis of the evolution of defence expenditures of the EU countries after the onset of the financial crisis is that the economic challenges, in the form of limited defence budgets, are not going to disappear overnight. Despite the encouraging trend of the member states defence expenditures over the past couple of years, the drastic cuts performed starting with 2009 have taken their toll on the state of the defence capabilities. According to a study of the European Parliament, "Europe has already lost about 20% of its capabilities since 2008 (*State of play of the implementation of EDA 's pooling and sharing initiatives and its impact on the European defence industry, 2015, PE 534.988*", accessed on October 10, 2016, [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/534988/EXPO_STU\(2015\)534988_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/534988/EXPO_STU(2015)534988_EN.pdf)). The challenges of the current security environment are not going to go away in the foreseeable future and, considering the sluggish

economic growth experienced by the EU, the increase of the defence expenditures cannot be as large (at least on short and even medium term) as to cover the capability gaps resulting from the austerity measures.

The EU member states need to acknowledge that the current challenges faced by the defence sector are not only the result of austerity measures and financial constraints, but they are also deriving from a lack of coordination and common policies, generated by weak political will and overriding national interests. The EU can no longer afford to avoid the fact that ensuring its defence has become a political-military-economic issue, with political decisions being sometimes taken in a disconnected way from both the strategic / military and economic considerations. This led to a situation where most European countries are not able to get involved in military operations in a totally autonomous manner, while at the same time struggling with economic problems that are further going to negatively impact their defence expenditures. Putting together multinational forces developed based on national considerations, that often prove to have lower capabilities in reality than they do on paper, is not a very effective way of performing military operations, or of making the best use of the limited resources available for defence and increasing the efficiency.

In other words, one of the first issues that need to be clarified is the concrete way in which Europe intends to ensure its defence. The defence of Europe can be supplied by separate member states armed forces, through their own means or within bilateral or multinational cooperation frameworks, or through a common European defence. The first option is in a sense easier, as it means maintaining the status quo, but it will remain plagued by large costs due to redundancies in capabilities, vested national interests and policies related to procurement, manpower and defence priorities. The option of a more integrated European defence seems like the most logical from an economic point of view, but it is a very difficult approach, considering the complexities of the political, social, defence and security environment and of the EU concept itself. The reality, based on the past years experiences and the evolution of the environment, with resurging nationalism and increased euro-scepticism, has shown the difficulty of bringing all the EU members to a common approach in policy and cooperation, and even more so when it comes to the practical implementation of the political decisions.

In order to overcome this challenge, the decision makers at EU and member states level should consider the development of common strategic planning

documents to support the framework of a European defence. The development of the EU Global Strategy is a crucial step in this direction, but it is by no means sufficient in order to build a realistic common approach to the security and defence issues that may occur on short, medium and long term. A White Book of Defence could be a promising start in this direction, as many member states already embraced this type of document to support their defence planning framework. This document should of course be harmonized with the existing EU legal framework, but also with the national member states defence policies, in order to outline clear strategic goals and objectives, a common level of ambition, common future course of action, the required capabilities and the means to close the capabilities gaps and the resource framework for the common defence policy. A common agreement regarding the level of resources (including financial resources) the member states agree to dedicate for defence (on short and medium term) is crucial to a functioning common defence.

The 2% benchmark, although valuable as a political instrument, is not realistic from an economic point of view, considering the economic situation at EU level. The member states need a common approach regarding the level of defence expenditures at EU level, based on the EU level of ambition and capabilities, not as a reference to NATO recommended benchmark. In addition, a more effective allocation of the defence funds among categories of expenditures (personnel, procurement, operating and maintenance, research and development, infrastructure) should be also agreed, in order to increase the efficiency in using the already limited defence expenditures.

This approach, although rational from an economic point of view, may in reality be met with various degrees of reluctance, as it may be perceived as an infringement of the sovereignty of the member states in making defence policy decisions, may have negative social impact through the need to decrease personnel expenditures, for example, and it may come across national and corporate interests in relation to procurement and defence industries.

In the development of a White Book of Defence, EU could benefit from the expertise of specialists in defence planning and the political and military areas, both at national level and at intergovernmental levels, such as NATO or Eurocorps. Still, without the political will to adopt and implement the recommendations of experts, the document risks to remain only at declarations and wishful thinking level.

In this respect, the main obstacles in the path of a European defence are foremost of political and economic nature, and secondly of military nature. One of the main obstacles is the lack of political will from the member states to deepen the CSDP, beyond political declarations. The reasons for this reluctance are complex, ranging from the fear of a loss of autonomy of decision and even of sovereignty in an area perceived to be crucial to a country's national identity, such as defence, to the reluctance to make a clear stance of building an autonomous European defence, outside NATO framework. Many European states still view NATO as the main framework for their defence and a common European defence, including European capabilities and a European management, command and control framework, with permanent structures and headquarters, are considered as unnecessary and costly duplications of the NATO framework.

At the border between the political and economic obstacles we have to mention the reluctance of many member states to relinquish the support of their own defence industries in favour of better integrated European defence procurement. The latter would prevent the member states to make use of various mechanisms (ranging from political decisions backed up national security arguments to subsidies and offset contracts) to support national defence producers, providers of domestic workplaces and contributors to the state budget.

The economic obstacles to a European defence derive from the economic problems faced by many of the member states, in a context of sluggish economic growth and with the spectre of a new recession looming at the horizon. The defence expenditures have not been considered, until a few years ago, a priority in comparison with other economic areas, and the amounts that the member states did spend for defence are often not matched by corresponding outputs and real military capabilities. The austerity measures following the economic and public debt crisis, the trend of downsizing the member states armed forces, combined with the high prices of the military equipment have led to the danger of the emergence within the EU of the so called "bonsai armies" (*Andersson, Jan Joel, Biscop, Sven, Giegerich, Bastian, Mölling, Christian, Tardy, Thierry, 2016, Envisioning European defence - Five futures Chaillot Paper - No137, accessed on September 19, 2016, <http://euromil.org/interesting-reading-envisioning-european-defence>*), armed forces of diminished size, oriented towards specialization and niche capabilities, with a narrower capability spectrum. Drawing on the principle of comparative advantage, specialization in itself is not negative from an economic point of view, but the achievement of a functional and effective

European defence requires more than the theoretical aggregation on paper of Hungary's NBC capabilities with Czech Republic's MedEvac capabilities and of the Belgian Special Forces. It requires common strategic planning documents, common military strategies, commonly agreed and clear goals and objectives, a unified military command and control framework, sufficient military capabilities and close interoperability within the member states. Nevertheless, it requires resources, especially additional financial resources that the member states may be reluctant to allocate in the current economic environment. Also, combined with the scarcity of budgetary resources, the rather rigid financial rules at the EU level, especially regarding the budget deficit, further restrict the ability and willingness of the member states to substantially increase their level of defence expenditures. Thus, better burden sharing and common financing of common operations related to the achievement of commonly agreed goals would be the main goal to be achieved within an improved CSDP. Considering the current economic, and political environment, it looks like a very ambitious and somewhat idealistic approach.

Finally, the obstacles of military nature in the path of a common European defence are mainly related to the different strategic cultures of the member states, ranging from a more assertive stance (like France) to a rather neutral position (such as many of the North European states). Also, various EU members may have security and defence priorities that may not coincide with a common EU view on the common risks and threats (Greece is more focused on the traditional rivalry with Turkey, the southern European states may be more concerned with problems from Africa and Middle East than the Central and Eastern European countries etc.). This adds to the difficulty of forging a truly common view on the security and defence risks and threats faced by the European Union as a whole.

The European project, as it was initially designed, has a large potential to foster sustainable development in all areas, including economic and defence, through the fact that it aims to bring together a basic human and economic values, but this potential is not yet sufficiently understood and exploited.

A Europe developed separately, on individual states interests, has little chance to thrive in a very volatile global economic, political and security environment. The challenges have only multiplied in the recent years: Brexit, the election of Donald Trump as the next US president and the great uncertainty accompanying the future of the US foreign policy, especially in relation to the attitude regarding

NATO and the European allies, the security crises emerging all around EU borders, from Ukraine to the Middle East and the Sahel region etc. The relatively stable defence environment Europe has enjoyed in the last two decades seems a thing of the past, in a new environment where we witness the use of brute force as a strategic and tactical instrument of power, highlighting the major weaknesses of the EU Common Security and Defence Policy: aggregated national military forces without political will and a common vision do not create a military power.

This may prove both a challenge, but also an opportunity for the European Union, should the member states find the much needed common way. It is difficult to predict the direction the EU members will take in the near future, the scenarios can vary from a renewed resolution to increase the European defence policy and the defence cohesion, to maintaining the status quo, or even, in a worst case scenario, to the dissolution of the EU itself as a result of nationalistic movements within the members states. What is certain is that a common defence can only work as a product of a common vision, common strategic interests and common operational vision; otherwise the national interests will always prevail. At the same time, ignoring the desires and differences of opinion between the member states in the name of an idealistic project is a path doomed to fail. The member states need to find a common language and the political will to effectively counter together the defence issues Europe is facing, by firstly clarifying the way the member states see the European defence – as a sum of national defence policies or as a working integrated defence.

Also, the need to increase the efficiency of the defence expenditures means correlating the economic and defence interests and policies and overcoming specific national or corporate interests. The key challenge actually rests with the achievement of the optimum balance between member states sovereignty and EU common interests, by overcoming nationalistic and populist policies, national and EU bureaucracy and the tendency for a short term approach to medium and long term problems.

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