

An Agenda for Action

The agenda below was endorsed by the CSIS Commission on Transatlantic Security and Industrial Cooperation in the Twenty-first Century.

Better Value for Money but also More Money for Greater Value

EUROPEAN GOVERNMENTS SHOULD FOCUS THEIR EFFORTS ON DEVELOPING ADVANCED MILITARY TECHNOLOGIES AND MAKING THEM MORE EASILY DEPLOYABLE THROUGH CONSOLIDATION, MORE EFFICIENT PRACTICES, AND AS FEASIBLE, GREATER SPENDING.

Growing gaps between U.S. and European military capabilities are making allied defense cooperation and interoperability more difficult. Continuation of this trend will have adverse political consequences within the NATO alliance and threaten the members' security.

The defense transformation envisioned on both sides of the Atlantic rests critically on the effective exploitation of technology. Current European forces are already straining national budgets. Technological transformation could prove to be unaffordable. Trade-offs within defense budgets are helpful but do not suffice.

Both NATO and the European Union should make an effort to coordinate on defining priority defense requirements and equipment needs that could be met by consortia or partnerships among industrial suppliers and technology companies across the Atlantic. Cooperation on missile defense and unmanned aerial vehicles are two significant areas where coordination can avoid redundant spending. While much can be done to facilitate greater interoperability through technology pooling and common planning, European governments are unable to deploy advanced capabilities rapidly enough as a result of continuing low and insufficient levels of defense spending. A serious European commitment to increasing spending in both military R&D and weapons procurement would be a first step toward bridging the growing transatlantic capabilities gap. As part of that commitment, European members of NATO and the member states of the European Union should agree on the minimum level of real annual growth in defense spending they deem necessary and realistic.

Whatever the level of defense spending, moreover, the fielding of advanced European military systems is delayed by the inability or unwillingness of European governments to cooperate among themselves more closely on R&D, including the definition of key R&D priorities, the consolidation of laboratories and testing facilities across national boundaries, and the integration of national development and purchasing offices.

Promoting a Level Playing Field

THE TRANSATLANTIC GAP IS NOT AT THE LEVEL OF BASIC TECHNOLOGIES; RATHER, IT IS AT THE LEVEL OF INTEGRATING THESE TECHNOLOGIES INTO SUITABLE DEFENSE APPLICATIONS. U.S. AND EUROPEAN GOVERNMENTS SHOULD FOSTER AN ENVIRONMENT THAT ALLOWS FOR CLOSER INDUSTRIAL COOPERATION ON THE DEVELOPMENT OF ADVANCED MILITARY SYSTEMS ACROSS THE ATLANTIC.

To the degree that NATO members are able to devise and implement transatlantic cooperative projects to develop new generations of military systems, particularly in the areas of command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR), they will reduce problems of interoperability and magnify the alliance's military capabilities. Such cooperation can only be built on a willingness to draw on component technologies from participating nations in a fair manner. This means paying more attention to operational requirements, willingness to invest, capabilities, and efficiency than to national origin and offset arrangements.

Existing programs intended to accomplish these goals—such as NATO's Defense Capabilities Initiative—need to be focused on the most critical priorities. The goal should be to reduce obstacles standing in the way of cooperation across the Atlantic and to devise incentives for companies to work together, each contributing technologies and know-how in which they have comparative advantage.

U.S. initiatives, such as the NATO Response Force proposed by Defense Secretary Donald Rumsfeld, and European initiatives, such as the European Capability Action Plan (ECAP), should also be pursued and even accelerated.

Finally, a significant adjustment in attitudes on both sides of the Atlantic is in order. U.S. skepticism about European willingness to make valid contributions to common security and injured pride among the Europeans, who are certain they bring decisive technological and industrial assets to the table, need to be addressed pragmatically on both sides. Interoperability and complementarity rather than standardization or strict commonality should be the goal.

Avoiding Fortresses, Realigning Policies

BOTH THE UNITED STATES AND EUROPE NEED TO REFORM THEIR EXPORT CONTROL SYSTEMS SO AS TO STRENGTHEN THEIR ABILITY TO SHARE TECHNOLOGIES AND TO BETTER ADDRESS THE NEW AND EVOLVING THREATS IN THE GLOBAL SECURITY ENVIRONMENT.

The U.S. export control system requires far-reaching reform. The current system, erected during the Cold War to protect then-unique U.S. military technologies from Soviet espionage, is no longer adequate. The rapid advance and diffusion of commercial technologies within an evolving international economic and political system provides allied military forces with the promise of vastly increased combat effectiveness but presents new challenges for military and industrial security. Rather than protecting U.S. security, the current system undermines it by impeding cooperation between the United States and trustworthy allies.

Necessary reforms include a narrowing of the list of U.S. controlled items (i.e., drop those items that are already outside the ability of the United States and Europe to control, such as a number of commercial, dual-use items) to those whose proliferation could truly augment adversary military capabilities. Such reforms should also involve rationalization of the interagency review process to accelerate and streamline the processing of license applications, and review and revision of the Export Administration Act (governing dual-use items), the Arms Export Control Act (governing munitions), and the International Traffic in Arms Regulations to allow for closer alignment with contemporary defense and technological realities.

A reformed export control system should avoid detailed regulation of the vast majority of exporters who merely seek normal business arrangements. Rather, it should focus on stemming proliferation of weapons of mass destruction to volatile Third World states and on the enforcement of the rules against those who deliberately seek to circumvent controls.

The current and two past U.S. presidents have all recognized the need to reform the U.S. export control system. The recent signing by the U.S. administration of the National Security Policy Directive on Defense Trade Export Policies/Practices and National Security, mandating a comprehensive six-month review of U.S. arms export control policies, presents a significant step forward in the overall reform process.

On the other hand, allied governments that wish to facilitate transatlantic cooperative projects need to establish greater transparency with respect to their methods of controlling technology exports to third nations. In some cases, this means taking explicit actions that will reassure the United States that advanced military technologies, whether developed in Europe or imported from the United States, are not transferred to potential adversaries. The United States will be more willing to facilitate pooling of advanced military technologies across the Atlantic if it is persuaded that effective technology transfer controls are both operative and enforced in all cooperating European capitals.

To facilitate this confidence, the traditional U.S.-European relationship must respond to the new reality of evolving European institutional processes. Transatlantic consultations and negotiations should gradually assume a more direct and multilateral relationship between the United States and a grouping of like-minded EU member states. The six EU signatories to the Letter of Intent/Framework Agreement offer one example of an institutional setting within which the two sides of the Atlantic can better harmonize export controls on transfers of advanced military technologies to third nations, facilitating defense cooperation.

Merging Industry, Diverging Policy?

U.S. AND EU AUTHORITIES NEED TO WORK MORE CLOSELY TOGETHER ON TECHNICAL ISSUES AFFECTING COOPERATIVE ARRANGEMENTS BETWEEN COMPANIES IN EUROPE AND THE UNITED STATES. GREATER TRANSPARENCY AND MUTUAL UNDERSTANDING OF NATIONAL AND EU PERSPECTIVES ON MERGER REGULATIONS AND REVIEWS, FOREIGN INVESTMENT, AND INDUSTRIAL SECURITY AND DISCLOSURE REG-

ULATIONS WOULD BE IMPORTANT EARLY TOPICS FOR DISCUSSION. IN ADDITION, THE ESTABLISHMENT OF JOINT PROCESSES FOR RESOLVING RELATED DISPUTES WOULD BE VERY HELPFUL.

While a joint EU-U.S. working group has been established to harmonize defense merger decisions, the initiative should be broadened to include the discovery and analysis period before a decision is made and to establish procedures for appeals after a decision has been made. The existence of such clear and fair-minded procedures would reduce disincentives for companies to look abroad for foreign partners, rather than continue to focus exclusively on domestic sources.

A multilateral dialogue on foreign direct investment (FDI) is crucial. Both sides must work on harmonizing regulations governing foreign investments in defense companies and provide greater transparency into procedures used to review such possibilities, as well as on industrial security and disclosure policies. The U.S. regulatory process governing FDI needs streamlining, with more simple rules for firms and countries that do a respectable job of protecting technology flows. The Europeans, for their part, need to ensure that national and EU policies on FDI and competition do not inhibit reciprocal U.S. access to the European market.

Charting a New Reform Course: From Industry Consensus to Policy Implementation

DEFENSE COMPANIES ON BOTH SIDES OF THE ATLANTIC SHOULD PRESS THEIR GOVERNMENTS FOR A MANDATE TO INITIATE A SENIOR-LEVEL, INDUSTRY-DRIVEN PROCESS TO IDENTIFY AND OFFER GOVERNMENTS TRANSATLANTIC INDUSTRY CONSENSUS ON NECESSARY CHANGES IN REGULATIONS AND PROCESSES THAT GOVERN TECHNOLOGY TRANSFERS AND OTHER KINDS OF COOPERATIVE CORPORATE VENTURES. SUCH A PROCESS WOULD ENCOURAGE GOVERNMENT POLICIES THAT SUPPORT GREATER EFFICIENCY OF DEFENSE INDUSTRIES IN NATO MEMBER STATES, SERVING BOTH NATIONAL SECURITY INTERESTS AND THE COMPANIES' SHAREHOLDERS' ECONOMIC INTERESTS TO THE GREATEST DEGREE POSSIBLE.

Governments on both sides of the Atlantic are currently behind the curve on defense industry discussions about joint ventures, strategic partnerships, and acquisition opportunities. U.S. and European governments and their legislative branches should encourage transatlantic initiatives that can help both sides to meet crucial defense requirements rather than raise obstacles through undue political intervention or the enforcement of overtly restrictive rules on exports and technology transfers.

Establishment of a process formed, led, and supported by industry, consisting of senior-level representatives of defense companies in the United States and in Europe, would provide a dedicated forum for discussion of obstacles standing in the way of transatlantic technological and industrial cooperation and of possible means of removing them. Under the mandate, governments would commit to consultations with industry, to responding directly to industry consensus recommendations, and to implementing recommendations where feasible.