

# Shaping a Transatlantic Defense Community

Although cooperation can bring substantial benefits to the United States and Europe, the history of cooperative programs demonstrates that success is hard-won and often fleeting. Disparate military requirements, weak political support, resource shortfalls, and bureaucratic resistance can kill the most promising cooperative initiative.

Looking ahead, growing differences in U.S. and European strategic visions, military plans, and defense spending could further exacerbate these problems and sharpen political arguments on both sides of the Atlantic in favor of renewed protection of defense industrial bases and defense technologies.

Yet the case for a healthy, more open, and innovative transatlantic defense industrial base may have never been as strong as now. The logic of synergy and interdependence rests on four pillars: the interaction of policy and military capabilities; efficiency and effectiveness of defense acquisitions; technological changes and proliferation issues; and budgetary realism. These arguments apply differently on either side of the Atlantic. Combined, however, they point to the inescapable need to remove old and new barriers to greater defense industrial cooperation between the United States and Europe.

## The Case for Change

The policy and military case is perhaps the most self-evident. As the global security agenda evolves to encompass the challenges of the twenty-first century, the United States and Europe are brought even closer together by the interests they have in common. Perhaps the most important of these can be found in the defense and security arenas: securing the peace in troubled areas of Europe and often beyond; combating terrorism at home and abroad; and defending against the proliferation of WMD and the means of their delivery. Despite recent rhetoric about U.S. unilateralism and European fickleness, one aspect that has become clear since September 11, 2001, is the common realization that terrorism and proliferation are emerging threats to both the United States and to Europe. Confronting these threats in harness is more productive than succumbing to diverging policy orientations across the Atlantic.

Allied interoperability is more than a catchword; it reflects the reality of future coalition forces, whose effectiveness will depend, above all, on the development and sharing of the most advanced information and communications technologies

among allies. Enhancing the capabilities of the Europeans, whether through NATO or within evolving EU structures in cooperation with the alliance, is a common important objective on both sides of the Atlantic.

A more open and reciprocal regime for industry and technology would also provide defense policymakers with enhanced choices, competition, and flexibility regarding long-term decisions on defense acquisition. A more flexible regime that creates incentives for partnerships across the Atlantic would benefit both sides offering a broader array of technical options and better-controlled costs.

Technology pooling is a third advantage of a more integrated transatlantic regime. The technologies that are critical to military capabilities in the twenty-first century—information, sensors, satellites, and communications—are increasingly commercial and globally available. The capacity to integrate these technologies into military applications, however, is less dispersed, and limited largely to U.S. and a few European companies. Greater flexibility in the technology transfer regimes between the two continents would entail clear advantages for both sides. By the same token, greater protection of technology flows on either side of the Atlantic could have a significant negative impact on the substantial transatlantic traffic in defense components and subcomponents on which military platforms on both sides increasingly rely.

In addition, as DOD struggles to attract nondefense high-technology industries in the United States into providing information and communications technologies for defense needs, it is likely to encounter resistance to the constraining regime of technology transfer and export rules. These firms are comfortable in global markets and often fail to respond to such constraints.

Budgetary considerations are yet another incentive for closer transatlantic defense industrial ties. The resource argument is particularly compelling in the European case. Limited budgets for defense investment, even if in the future they might exceed current levels, is the Achilles' heel of the EU effort to create an effective autonomous rapid reaction force. Access to U.S. defense technology and the U.S. defense market—and the potential economic efficiencies—are major incentives for the Europeans to seek a more flexible set of rules for transatlantic dealings.

Economic considerations should provide an incentive for the United States as well. The rapid growth in defense investment budgets projected for the next five years is still seen by many as inadequate, given the dual requirements for equipment modernization and transformational technologies. Should renewed fiscal deficits put future defense budgets under pressure—as seems likely—the projected investment funding could easily fall short of expectations. Stronger, competitive transatlantic options for defense equipment could provide part of the solution to this budget dilemma.

Finally, there is an industrial incentive for a more open and flexible transatlantic defense relationship, one that is sensed by defense firms on both sides. European firms clearly see access to U.S. defense markets and technologies as critical for their survival, given budget limitations and fewer contract opportunities in Europe. U.S. firms, while less dependent on the international market, also fear losing their historic access to the European market, especially as the latter moves to greater integration in matters of regulation and common rules. They recognize that tradi-

tional sales access to Europe is no longer possible, unless it comes through partnerships with European firms. Such agreements, however, are viable only if there is reciprocity in government policies on both sides of the Atlantic.

Industry has a large stake in ensuring that such reciprocity occurs. Some may believe it is still possible to capture sales and market share on the periphery of the EU. As the union expands, however, EU responsibilities in the defense arena are likely to do likewise. As other European nations join the EU, the incentive to give preference to European technology companies will grow even stronger. A U.S. corporate strategy that relies on sales to the European periphery without reference to the markets of Europe's six major defense players is a strategy of market erosion.

Critics of integration may reason that a confrontational approach to such European developments will ensure continued U.S. penetration of the entire European market, without the need to concede reciprocity in U.S. industrial base and technology rules and regulations. According to this logic, continuous pressure on the Europeans to buy U.S. platforms will, in the end, prevail because the U.S. technology is superior and less risky, delivery is guaranteed, and prices are better for the capability. In this view, if European defense budgets are inadequate, the Europeans will, in the end, concede and buy American.

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Any or all of these arguments may be valid and yet faulty in predicting the desired outcome. If the recent experience of the A400M and missile programs is any indication, the Europeans will not be persuaded by this logic. On the contrary, they 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.

While aircraft programs such as the A400M and missile programs such as Meteor continue to occupy center stage in European defense fora, the operators of military equipment throughout Europe continue to ask for maximum capability at affordable prices. Coupled with budgetary pressures, the changing technology in modern warfare, and the recognition that even as collective decisions are desired acquisitions remain subject to national action, the result is continued strong sales opportunities for U.S. products throughout the European community. (Examples include the sale of F-16s to Greece, the JSF, the Spanish F-100 and Norwegian frigate programs, and numerous radar/command and control programs.)

The U.S.-European market is also becoming more of a two-way street than is commonly recognized. Many European defense companies have successfully bought their way into the U.S. market. The demand for value-based acquisitions and fielded capability moves European programs into the U.S. defense market as well. The premise of the U.S. Coast Guard Deepwater program is proven technology at a value-based cost structure regardless of origin and is the only solution to the recapitalization of the Coast Guard's forces. This approach provides a means by which technology or products from European defense companies can enter into the U.S. defense market and then potentially migrate to third-party countries in concert with the U.S. partners. The same is true of the EH-101 program. This is a

fielded system, fully compliant with U.S.-based requirements providing a solution that can meet stringent timelines.

In sum, both sides have much to gain from a transatlantic defense industrial relationship that is more open, flexible, and innovative. To ensure future success, however, reform efforts must be broadly gauged, with parallel actions by governments and industry in the United States and Europe.

## A Partnership for Change

The creation of a more flexible and open transatlantic defense regime can only be achieved if governments and industry work together. Governments on both sides of the Atlantic are uniquely responsible for creating the conditions that can either facilitate or impede transatlantic defense industrial cooperation. In undertaking to meet these responsibilities, however, U.S. and European governments must be aware of their dependence on defense industry, without which they will be unable to secure the military and commercial technologies and systems vital to their mutual security.

A partnership for change between government and industry will not be easy. Cooperation both within and between Europe and the United States will be complicated by the fact that governments and defense companies often have different agendas. Agendas will also differ among individuals within each government and each company. Enlightened leadership by senior government officials and industry leaders nonetheless can go a long way toward bringing those various agendas into greater concurrence.

## Principles of Action

A government/industry partnership for change should be guided by several “first principles,” outlined below.

**SHAPING A COMMON STRATEGIC APPROACH.** First, it is critical that the multiple issues involved in these discussions be approached as a strategic agenda, rather than as discrete parts. As the history of past cases shows, many conditions and elements are required for successful transatlantic defense cooperation. Treatment of the full range of issues is, therefore, important to creating a new transatlantic regime. Treating these issues in a comprehensive manner will also provide opportunities for tradeoffs in negotiations, facilitating a successful outcome.

**FOSTERING A NEW SPIRIT OF PARTNERSHIP.** Second, both partners must acknowledge that each side brings something to the table. One key reason for the near-failure of the ITAR negotiations with the UK was the U.S. insistence that the Europeans “level up” their export control regimes by incorporating U.S. statutes and practices into British law. There are areas, however, in which the Europeans may have “best practices.” Both sides can benefit from undertaking best-practice research with each other, rather than seeking extraterritorial enforcement of national legislation.

**ENHANCING THE U.S.–EU DIALOGUE.** Third, given the evolution of the European market, industries, and institutions, it is important that the U.S.–European relationship take on an increasingly multilateral character. Admittedly, bilateral arrangements will continue to provide the preferred and most efficient way of transatlantic cooperation—not only from a U.S. standpoint but also from the perspective of European companies. Even as Europe’s integration proceeds, fundamental changes in the way EU member states operate and cooperate with each other will not be sufficient to address more urgent and medium-term questions.

At the same time, however, it is important to recognize that the days of serial bilateral negotiations on defense industrial and technology issues are numbered; the attempt to forge a chain of bilateral agreements will founder on the reality of evolving European multilateral processes. Nor is NATO the proper forum for such negotiations.

The European process will ultimately be institutionalized under EU structures. The EU’s headline goals, not the Defense Capabilities Initiative (DCI) of NATO, are driving European defense performance. Negotiations, therefore, should gradually assume a more direct relationship between Americans and a European grouping—four, six, most, or all EU members, as appropriate.

### Areas of Action

The ultimate goal of a renewed U.S.–European dialogue should be a more open and dynamic transatlantic defense industry and technology relationship that safeguards the partners’ shared security through effective controls on the leakage of critical defense technologies to potentially threatening state and nonstate actors. The policies, issues, and barriers that will need to be addressed to achieve this vision are outlined below.

**STRATEGY.** Efforts to facilitate transatlantic defense industrial cooperation should be embedded in a broader mutual understanding of U.S. and European global and regional strategies. The United States and its European allies, therefore, should invest seriously in a common discussion of the elements of a global strategy that they can share and enforce jointly. Most important, the discussion should encompass shared responsibilities for stability operations in Europe, common approaches to combating terrorism with a global reach, and policies regarding the proliferation of WMD. This dialogue needs to take place within NATO, but also, critically, between NATO and the EU, as the latter shapes its rapid reaction force and the equipment it requires to be effective. As key nations engage in defense reviews, including the United States, they should draw military and civilian policy-makers from the other nations into that discussion.

**MILITARY PLANNING.** A more multilateral strategic review process should be accompanied by a parallel set of conversations over defense requirements, force planning, and hardware objectives. Although it will be difficult to explore hardware issues in common, an effort should be made to create formal and informal mechanisms to identify priority defense requirements and to define equipment needs that could be met by consortia or partnerships among industrial suppliers and technology companies on both sides of the Atlantic. Some hardware planning decisions

will be critical. Acceptance of the Joint Strike Fighter in Europe and cooperation on unmanned aerial vehicles are two key examples.

**BUDGETS.** A significant increase in European defense resources is needed, both to supply the requirements of the European rapid reaction force and to ensure adequate investment in transformational technologies. Tradeoffs within defense budgets will help, but will not be enough. The British, for example, can no longer trade off forces for hardware without losing essential force strength. Germany, in particular, needs to make a greater budgetary effort both to ensure that essential European equipment can be purchased cost effectively and to ensure continued leadership in defense matters within the EU. The budget planning cycles among key countries should also involve participation from the other countries. Enhanced understanding of the partners' respective budgeting processes would be worthwhile on its own, while the opportunity for greater input into these processes could encourage closer harmonization of acquisition planning.

**RESEARCH AND DEVELOPMENT.** The Europeans need to increase their R&D budgets and achieve a much more significant harmonization of programs than they have to date, if R&D investments are to be cost effective. There is room, too, for more serious transatlantic defense R&D cooperation.

Important impediments to such a dialogue include U.S. skepticism that the Europeans have much to offer technologically and injured pride among the Europeans who are certain they bring decisive assets to the table. An adjustment in attitudes on both sides of the Atlantic is in order. A dialogue is urgently needed to identify key technologies in the United States and Europe that are of mutual benefit and to shape ways in which these advantages can be harvested on either side.

**EXPORT CONTROLS, TECHNOLOGY TRANSFERS, INDUSTRIAL SECURITY.**

Export control difficulties go to the core of the problems that hamper transatlantic defense cooperation. Changes in the United States and in Europe will be necessary if this critical impediment to enhanced cooperation is to be removed. The U.S. export control system is broken; its technology transfer rules increasingly self-defeating and out of step with broad trends in the global and European economies. Export control reforms in the United States are therefore imperative, including shrinking the U.S. Munitions List to critical items, instituting greater corporate self-governance with government audits of performance, and creating a stronger appeals process for disagreements.<sup>51</sup>

The reform effort must include a fundamental adjustment in the machinery and level of discussion between the United States and Europe. Bilateral DOP and ITAR negotiations could proceed apace, but a gradual reorientation toward a more multilateral dialogue with the LOI six should be a central objective of U.S. policy. In

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51. For recent export control reform proposals, see: Office of the Under Secretary of Defense for Acquisition and Technology, *Final Report of the Defense Science Board Task Force on Globalization and Security* (Washington, D.C.: Defense Science Board, December 1999); John J. Hamre, project chair, *Technology and Security in the Twenty-first Century: U.S. Military Export Control Reform*, A Report of the CSIS Military Export Control Project (Washington, D.C.: CSIS, May 2001); and Henry L. Stimson Center and CSIS, *Study Group on Enhancing Multilateral Export Controls for US National Security*, Final Report (Washington, D.C.: Henry L. Stimson Center, April 2001).



the long term, a purely bilateral strategy is unlikely to succeed and only persuades some Europeans that the U.S. goal is to “divide and conquer,” not to create a new, stronger, multilateral regime. Ultimately, all three sets of policies, rules, and processes will need to be negotiated at the multilateral level.

Achieving the mutual gains associated with the freer flow of technology between the United States and Europe also will require a new transatlantic agreement on transfer controls beyond the Euro-Atlantic space. This is a win-win proposition, based on a tradeoff between greater internal flexibility for technology flows across the Atlantic and stronger and clearer barriers to the proliferation of the most critical technologies to threatening states.

The reconciliation of U.S. and European control systems has proven elusive in the past; the issue may have become more tractable with the growing importance of the terrorist and proliferation threats to both the United States and Europe. As negotiations proceed, the United States and its European partners would do well to define critical capabilities that need protection in a multilateral regime, rather than seeking to create long lists of protected technologies. Such consultations should also involve the U.S. Congress and European parliaments for the purpose of enacting new legislation that allows for greater compatibility and reciprocity in related policies across the Atlantic.

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**FOREIGN DIRECT INVESTMENT.** A multilateral dialogue on foreign direct investment is also required. There are likely to be distinct advantages to DOD from greater transatlantic defense investment. U.S. industry, too, will benefit from increased opportunities for access to the European market and for partnerships, investments, and government sales. But the U.S. regulatory process governing direct foreign investment needs streamlining with more supple rules for firms and countries that do a respectable job of protecting technology flows. The defense security arrangements surrounding non-U.S.-owned assets in the United States also need review and reform, in order to build trust, rather than sow separation, across the Atlantic.

The Europeans, for their part, need to be drawn into this dialogue in order to ensure that national and EU policies on foreign direct investment and competition do not inhibit reciprocal U.S. access to the European market. A clearer definition of multilateral rules of the road would benefit both sides.

**DUAL-USE ITEMS.** U.S. acquisition rules that impose the same contracting and reporting requirements on commercial firms as those borne by defense contractors will ultimately deny DOD access to the technologies it needs. The DOD has begun to grasp the importance of changes in the requirements related to dual-use items, but it still needs to work through the undergrowth of rules and regulations currently in place. European rules on dual-use technology appear more flexible and should form part of a dialogue on this subject. That dialogue will inevitably involve the EU, since dual-use rules are within the European Commission’s competence.

**DEFENSE ACQUISITION RULES.** It will be difficult to reshape acquisition regimes among the Europeans, let alone across the Atlantic. This effort should

begin, however, as acquisition practices and rules make cross-border procurement difficult and can discriminate against nonnational suppliers. No defense contractor will happily engage in a partnership bid if the rules are complex, overwritten, or unclear. The United States should engage the member countries of OCCAR in a common review of acquisition practices, recognizing that no country's system provides a perfect guarantee for on-time, within-cost, on-performance military hardware. On the European side, the OCCAR members need to ensure that OCCAR rules are nondiscriminatory vis-à-vis nonmember firms; U.S. acquisition regulations need to ensure the same is true in DOD.

**PROGRAM MANAGEMENT AND TRAINING.** Program managers are trained to deliver complex military systems that meet performance criteria as well as price and schedule targets; their training typically touches only slightly, however, on larger geostrategic objectives or the potential benefits of cooperative partnerships. Program managers therefore are inclined to embrace domestic solutions rather than pursue cooperative programs.

To win the support of mid-level staff, the training curriculum for acquisition professionals (i.e., program managers, senior and mid-level staff) should be expanded to stress the relevance of cooperation to national security and coalition warfare, and the potential utility of cooperative solutions in providing quality equipment at an affordable price. Training should also include identification of the management elements that correlate most strongly with successful cooperation, including the existence of a "product champion," broad political support, professional management, desire for participation and technology, and an equitable distribution of benefits.

**INDUSTRY CONSOLIDATION.** Both Europe and the United States face further rationalization of a defense industry that is largely consolidated at the system integrator level. Industry recognizes that further rationalization of capacity will be important in order to procure systems cost effectively within budgetary constraints. The acquisition systems on both continents should not create incentives for contractors to retain excess capacity, but should encourage capacity shrinkage, by allowing some contractor retention of the savings gained by doing so. A transatlantic dialogue would facilitate the exchange of lessons learned in this process.

**THE ROLE OF INDUSTRY.** More than ever before in recent history, the transatlantic regime will be shaped by company initiatives and behaviors. Governments are currently behind the curve on industry discussions of joint ventures, strategic partnerships, and acquisition opportunities. Rather than discourage such conversations by political intervention or the enforcement of restrictive rules on exports and technology transfers, U.S. and European governments should stimulate such discussions and encourage transatlantic initiatives that can help both sides to meet crucial defense requirements.

U.S. industry has a major responsibility to take the initiative, lobby for changes in the U.S. rules and processes already discussed, and provide transparent expertise on how a transatlantic regime should be shaped. European industry has a similar responsibility to help ensure that the LOI, OCCAR, and EU processes grant reciprocal access for U.S. firms to the European market. Industry is generally reluctant to



step ahead of government to effect change. Since government at this juncture is more inclined to resist major change, government policy would benefit from industry initiative to create a multilateral, transatlantic environment in which industry thrives, government benefits, and security is enhanced.

## Toward a Community of Action

The end of the Cold War created many new realities in Europe. But it did not essentially change the central thrust of U.S. interests in the region: a free, safe, prosperous, democratic, and open European continent.

The events of September 11, 2001, introduced a complex “new normalcy” in the world. But awareness of its dangers has reinforced the imperative of transatlantic cooperation. Now, more than ever before, the United States, Canada, and the countries of Europe are bound by a shared commitment to the fundamental values and vital security interests they share with one another more than with any other part of the world. In the wake of the September 11 terrorist attacks, their mutual survival and prosperity will depend more than ever on their ability to rely on such shared values and common interests to form a community of action, including military action. For such a community of action to be effective, the goal need not be to do everything together, but to ensure that together its members do everything.

Within this transatlantic community of values and interests, some barriers to defense trade and cooperation are rooted in legitimate concerns and objectives on both sides. Others reflect lingering divergences in strategic perspective occasionally based on different historic experiences. Yet many of these barriers are rooted in Cold War practices that have outlived their initial usefulness and now threaten to erode the defense industrial base upon which the United States and Europe depend for their continued security.

In charting a reform course, U.S. and European governments and industry leaders should be guided by the shared vision of a global transatlantic defense market that ensures equivalent access to one another's markets, the abandonment of industrial policies that favor national defense companies, and the elimination of legal requirements and cultural barriers that translate into “buy American” or “buy European” practices. The regime must be characterized by a less restrictive flow of goods and services among partners and by effective common safeguards against unauthorized transfers to third parties.

**For such a community of action to be effective, the goal need not be to do everything together, but to ensure that together its members do everything.**

The agenda for action is daunting, but the need for change is urgent. The alternative is the gradual shrinkage of the transatlantic defense market, under political and bureaucratic pressures, an irreversible damage to allied interoperability, a growing technology gap between U.S. and European militaries, and the loss of technological opportunities for militaries on both sides.

Such an outcome is not inevitable. An alternative vision is within reach, but only with sustained engagement by both government and industry, in growing

partnership both within the United States and Europe and across the Atlantic. Complacency is not an option. Business as usual is no longer tenable. Problems that endanger the transatlantic partnership demand and deserve transatlantic solutions.

The future belongs to those who not only appreciate the fruits of past efforts and dare challenge the shortcomings of present policies but also assume the burdens and responsibilities of leadership in anticipating and countering future challenges. Compelling as they may be, incrementalist policies prove more a solvent of outdated problems than a builder of foundations on which present and future problems can be resolved.

For a community of values and interests as enduring and endearing as those that have come to shape the relationship between the United States and the states of Europe, only a community of action led by policy and industry on both sides can pave the way to a common future. To believe otherwise is to dismiss the reality of the ties that unite the two sides. A failure to preserve and tighten these ties in the twenty-first century would be unsafe for the United States, Europe, and all free men and women everywhere.