ECONOMICS AND SECURITY

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NATO Parliamentary Assembly

RESOLUTION 440

on

THE EUROPEAN DEFENCE INDUSTRIAL BASE*

The Assembly,

1. ***Acknowledging*** that the transatlantic security equation and the defence markets that help meet collective military requirements have shifted due to mounting instability around Europe, political threats to transatlantic comity, the rising cost of large military platforms, and the inadequacy of strictly national approaches to defence planning and procurement;

2. ***Recognising*** that although Allied countries have agreed to devote 2% of their respective GDPs to defence while dedicating at least 20% of those budgets to investment, greater care is needed to ensure that defence markets are structured to meet these objectives;

3. ***Noting*** that genuine capabilities development is not simply a question of defence spending but must also focus on cost effectiveness, for example, through pooling and sharing, national specialisation, targeted investment and deeper transnational defence-industrial cooperation;

4. ***Recalling*** that at the Warsaw Summit, NATO and the EU signed a Joint Declaration which furthered their partnership and outlined ways to strengthen defence industries in the Alliance, promote defence research and spur defence industrial cooperation both within Europe and across the Atlantic;

5. ***Acknowledging*** that EU member states are collectively the world's second largest defence spenders after the United States although market and political fragmentation contribute to Europe's serious capabilities deficit;

* Presented by the Economics and Security Committee and adopted by the Plenary Assembly on Monday 9 October 2017, Bucharest, Romania

6. ***Lamenting*** that persistent defence industrial protectionism has placed enormous burdens on European tax payers whose governments are often purchasing equipment from small high cost boutique national firms which do not benefit from scale economies;

7. ***Recognising*** that Europe's defence industrial sector is characterised by too many defence firms, too many differing requirements imposed by European governments on the systems those firms develop and sell and persistent national instincts to protect firms that are too small to be globally competitive;

8. ***Noting*** as well that defence industrial protectionism is a highly inefficient and costly means to save jobs in an economy;

9. ***Observing*** that over the last two decades the United States has engaged in serious defence industrial restructuring to reduce capacity and consolidate small firms into larger firms, thus making these companies less dependent on conditions in any given sector and more competitive in national and global markets;

10. ***Underlining*** that once clearly delineated, lines between commercial and defence markets have become less distinct as military equipment now incorporates rising shares of dual use technologies developed for commercial markets;

11. ***Recognising*** that the EU's purview over defence markets is limited under Article 346 of the Treaty on the Functioning of the European Union, which allows member countries to protect their security interests in connection with the production of and trade in arms, munitions and war material;

12. ***Welcoming*** the EU's growing interest in deepening defence industrial cooperation on the continent;

13. ***Recalling*** that Europe possesses many of the tools needed to facilitate market consolidation while generating funding for basic and applied research that can yield technological insights with potential military implications;

14. ***Noting*** that the European Defence Agency is poised to encourage European defence industrial cooperation, the development of capabilities needed for future battle fields and greater integration of European defence markets;

15. ***Applauding*** both the European Defence Action Plan, which offers financial assistance for member states engaged in joint procurement and capability development projects and EU Directive 2009/81/EC, which subjects arms purchases to broader EU rules calling for open public procurement;

16. ***Recognising*** the importance of Permanent Structured Cooperation (PESCO) which seeks to foster cooperation in financing, equipment, operational, and capabilities to achieve a higher degree of consolidation of the defence industry;

17. ***Concerned**,* however, that EU Member States unevenly apply directives aiming to encourage more defence industrial cooperation, particularly with regard to high-value and strategic defence systems;

18. ***Noting*** that beyond the EU, there are many efforts to encourage defence market consolidation both at the European and transatlantic levels including OCCAR, the NATO Industrial Advisory Group (NIAG), the Conference of National Armaments Directors (CNAD) and other NATO sponsored initiatives.

19. **URGES** member governments and parliaments of the North Atlantic Alliance, and particularly the European members of that Alliance:

a. to live up to the Wales Defence Investment Pledge and move towards spending a minimum of 2% of Gross Domestic Product on defence, and more than 20% of defence budgets on major equipment, including related research and development (R&D);

b. to restructure defence budgets and move ahead with cost-friendly initiatives such as the pooling and sharing of military capabilities, enhanced procurement cooperation and economically sensible trade in defence material;

c. to initiate without delay long-term investments in defence capabilities which can increase national and collective security;

d. to reduce the level of defence industrial fragmentation through, for example, encouraging greater cross-border and transatlantic competition and achieve far greater levels of defence spending efficiency both at the European and transatlantic levels;

e. to deepen the European defence market, define shared requirements, agree on common technological solutions and ultimately, carry out large multinational orders that effectively drive down unit costs;

f. to reduce defence industrial fragmentation in a flexible manner that leaves the door open to bilateral, regional and *ad hoc* multilateral cooperative ventures engaging Allies and even partner countries;

g. to develop annual strategic priorities, within the framework of European defence strategy consonant with European ambitions, that also consider transatlantic defence capabilities;

h. to keep the United Kingdom fully engaged in the process of defence industrial cooperation and multinational programme development even as Brexit unfolds;

i. to deepen EU-NATO cooperation to help ensure that the key players in shaping markets on both sides of the Atlantic are working with a common sense of purpose on matters of defence and security and shall ensure the inclusion of other countries of the Alliance;

j. to ensure the fullest involvement of non-EU European Allied countries in all its efforts to enhance European security and defence as well as in the endeavours underway to consolidate the European Defence Industry, including through the European Defence Agency, so as to avoid creating new divisions within Europe and ensure coherence.