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NATO Parliamentary Assembly

SUMMARY

of the meeting of the Economics and Security Committee

Sala N Balcescu
The Parliament (Senate and Chamber of Deputies) of Romania
Bucharest, Romania

Saturday 7 October 2017

ATTENDANCE LIST

Chairperson	Faik OZTRAK (Turkey)
General Rapporteur	Jean-Marie BOCKEL (France)
President of the NATO PA	Paolo ALLI (Italy)
Secretary General of the NATO PA	David HOBBS
Member Delegations	
Belgium	Brigitte GROUWELS
	Sébastian PIRLOT
	Luk VAN BIESEN
Bulgaria	Spas PANCHEV
	Nikolay TSONKOV
Canada	Leona ALLESLEV
	Joseph A. DAY
	Borys WRZESNEWSKYJ
Czech Republic	Vaclav KLUCKA
	Anna PUTNOVA
France	Philippe MICHEL-KLEISBAUER
	Natalia POUZYREFF
	Jean-Luc REITZER
Greece	Konstantinos KATSIKIS
	Georgios KYRITSIS
Iceland	Lilja Dögg ALFREDSDOTTIR
Italy	Emilio FLORIS
	Maurizio MIGLIAVACCA
	Luciano URAS
Latvia	Ivans KLEMENTJEVS
Lithuania	Ausrine ARMONAITE
Luxembourg	Alexander KRIEPS
Montenegro	Genci NIMANBEGU
Netherlands	Menno KNIP
Poland	Bozena KAMINSKA
	Michal SZCZERBA
Portugal	Luis Pedro PIMENTEL
Romania	Ovidiu Florin ORTAN
	Mihai Valentin POPA
Slovenia	Matjaz NEMEC
Spain	Emilio ALVAREZ
	Ramon MORENO
Turkey	Oktay VURAL
United Kingdom	Richard BENYON
	Michael GAPES
	Kevan JONES
United States	James SENSENBRENNER
Associate Delegations	
Armenia	Suren MANUKYAN
Austria	Hubert FUCHS
Azerbaijan	Gudrat HASANGULIYEV
Bosnia and Herzegovina	Nikola LOVRINOVIC
Serbia	Zoran DRAGISIC

	Dragan SORMAZ
Sweden	Göran PETTERSSON
Switzerland	Werner SALZMANN
Ukraine	Yurii BEREZA
	Iryna FRIZ
	Serhiy LARIN
	Oksana YURYNETS
Regional Partner and Mediterranean Associate Member Delegations	
Jordan	Hussein MAJALI
Morocco	Mohammed AZRI
	Youssef GHARBI
Parliamentary Observers	
Palestinian National Council	Abdelrahim BARHAM
	Mohammed HEGAZI
Australia	Ross HART
Speakers	**Vasile IUGA** Treasurer, Aspen Institute Romania
	Martin HILL Chairman, NATO Industrial Advisory Group (NIAG)
	Andreas GOLDTHAU Professor, Department of Politics and International Relations, Centre of International Public Policy, Royal Holloway University of London
International Secretariat	Paul COOK, Director
	Anne-Laure BLEUSE, Coordinator
	Constance HUBERT, Research Assistant
Committee Secretary	David SLATER

Saturday 7 October 2017

I. Opening remarks by Faik OZTRAK (Turkey), Chairperson

1. The Chairman listed the officer positions for which there would be elections later in the afternoon and named those who had so far indicated an interest in standing for those positions.

II. Adoption of the draft Agenda [165 ESC 17 E]

2. **The draft Agenda [165 ESC 17 E] was adopted.**

III. Adoption of the Summary of the Meeting of the Economics and Security Committee held in Tbilisi, Georgia, on Saturday 27 May 2017 [151 ESC 17 E]

3. **The summary of the meeting of the Economics and Security Committee held in Tbilisi, Georgia, on Saturday 27 May 2017 [151 ESC 17 E] was adopted.**

IV. Procedure for amendments to the draft Resolution *The European Defence Industrial Base* [202 ESC 17 E]

4. The deadline and method for amendments were explained.

V. Presentation by Vasile IUGA, Treasurer, Aspen Institute Romania, on *The Economic Situation in the Western Balkans*, followed by a discussion

5. The speaker noted that the Western Balkans sits at a critical crossroads and has long posed security challenges for Europe as a whole. The violent dissolution of the Yugoslav Federation triggered massive destruction, and the Western Balkans emerged from those conflicts as the most unstable and least integrated region in Europe.

6. A number of stakeholders compete for influence in the region including the EU, NATO, Russia, Turkey, the Middle East, China, and several multilateral institutions. The Western Balkans is very much part of Europe, and Europe is thus a key stakeholder in that region. Most elites in the region, in turn, express support for European accession.

7. The Western Balkans is often compared to the newer member states in the Union but they have confronted a number of disadvantages compared to many of the countries admitted to the European Union after the fall of the Berlin Wall. War, physical destruction, population displacement and the dramatic slowdown of investment during war only complicated the situation: weak institutions; geography (the region is not on main trading routes used by Western Europe); poor infrastructure; small economies; uncompetitive industrial sectors; weak banking institutions; demographic challenges including migration; and pervasive corruption.

8. Post-war growth in the region was strong but primarily premised on domestic consumption and financed through European capital. The service sector largely served domestic markets, and as such, did not generate significant foreign exchange earnings. Unemployment has remained high (25% in 2016, with 50% of young people out of work) and human capital is massively underutilised. As in other parts of Europe, the region has undergone an increase in unemployment in the post-crisis period. There is a significant informal economy – with some estimates that as much as 30/40% of employment is generated in these unregulated markets. This has a significant impact on competition: private businesses are competing both against state companies and the grey

economy. The official economy remains heavily regulated, and the private sector shoulders the great burden of these regulations. Post-crisis recovery has been weak and uneven, and the region's societies now suffer from a degree of structural reform fatigue. This has engendered pessimism and inspired rising nationalist sentiments.

9. Between 1991 and 2000, the Western Balkans grew at between 4 and 5% per annum, which is fairly close to the rate of growth in the new member states of the European Union. The EU has become the main trading partner and a critical provider of investment and financial support. Growth has been largely driven by domestic consumption, while investment in capital goods was relatively low. This has diminished the outlook for long-term productivity gains. Growth has also been financed through significant flows of expatriated worker remittances. These account for as much as 10% of GDP in Albania and Kosovo. An economy over-reliant on remittances can trigger currency appreciation, which in turn, generates a significant upswing in imports and the loss of export markets. The region has also undergone a rapid growth of credit denominated in foreign currency. This too has helped widen current account deficits insofar as this capital has financed imports.

10. The Western Balkans was not sheltered from the 2008 financial crisis and experienced declining demand, lower exports, and diminishing investments from already low levels, as well as a significant fall in remittance earning. The post-crisis recovery has been relatively weak, while it has been more robust in the EU's new member states. The challenge for the Western Balkans now is to bolster growth in order to converge more rapidly with EU member economies. GDP per capita for the region stands at roughly 25% of that of the EU17 and close to 50% of the new member states. There is a risk that it will fall into a "middle income trap".

11. What needs to be done? The biggest gaps as far as the reform priorities are concerned are around infrastructure, institutions, market efficiency, labour efficiency, and financial market development. Countries in the region are still poorly integrated in the global trade networks. They moved towards greater openness between 2000 and 2013, but the percentage of exports in GDP is half that of new member states. Currently 60% of region's exports go to the EU.

12. Human capital is massively underutilized in the region, and this, combined with a brain drain, constitutes a genuine strategic vulnerability. Infrastructure will be critical to development. The industrial revolution came late to the Western Balkans partly because of the lack of infrastructure. Infrastructure upgrades are now needed to bolster access to markets, fostering investment, and to increase employment. In today's economy connectivity is destiny: the focus is on the appropriation for the control of the supply chains. In practical terms, this means that infrastructure today is more important than borders. Railway and motorway density is three times lower in the Western Balkans than it is in new member states. Initiatives to improve infrastructure led by international financial institutions, the EU, and the Berlin Initiative have generated a list of priority projects for railway, roads, and energy infrastructure in the region. Eight billion euros of investment are needed to carry these out and this could account for 1% expansion GDP growth per annum and the creation of 200,000 new jobs.

13. The growth-reform outlook for the Balkans is generally positive, with fiscal consolidation efforts and structural reform underway in Albania and Serbia. This is a factor in rising foreign direct investments in manufacturing. But the outlook in Bosnia and Herzegovina and Kosovo is not as rosy. The message is loud and clear: those countries willing and able to implement reforms will continue to derive strong economic benefits.

14. In the discussion, **Oktay Vural** (TR) wondered if the external factors (interest of Russia, the US, etc.) had an impact on the development of the region and asked what could be done to integrate the small Western Balkan economies into global and European markets. **Vasile Iuga** replied that, from an economic standpoint, competition among different international stakeholders in the Balkans has had a positive impact. Moreover, the small size of local economies is not necessarily a bad thing as this can facilitate the development of a reform agenda. The downside is that it is difficult to generate economies of scale, hence the need to encourage and incentivize

regional integration and common infrastructure projects that facilitate open trade. Private investment covering more than one country is also a solution.

15. **Goran Pettersson** (SE) asked how partner countries might help the region address the problem of corruption. The speaker confirmed that tackling corruption is difficult but that it is necessary. Civil society needs to foster grassroots movements that counter corruption practices, and very targeted state efforts are needed such as creating a strong special prosecutor's office in charge of fighting corruption.

16. **Faik Oztrak** (TR) asked what kind of measures could be implemented to lower the vulnerability of developing countries to powerful capital movements. Mr. Iuga reminded the audience that the weakness of the banking sector in the region had exacerbated the financial crisis there. At that moment, foreign banks were the primary lenders and capital was financing consumption. The ensuing flight of capital worsened the impact of the crisis. The solution is to develop a strong, healthy, well-regulated and competitive regional banking sector offering financial services relying primarily on local deposits so that lending is conducted in local currencies.

VI. Presentation by Martin HILL, Chairman, NATO Industrial Advisory Group (NIAG), on *The State of Defence Industrial Cooperation in the Alliance and the Work of NIAG*

17. **Martin Hill** first discussed the role of NIAG, a high level consultative and advisory body of senior industrialists from NATO member countries, who provide strategic advice on transatlantic industrial cooperation, industry's role in capability development for traditional and emerging security challenges including cyber defence.

18. According to Mr. Hill, defence industrial cooperation has improved, but there is still an array of issues to be addressed. Industrial leaders will play a key role in building cooperation for particular defence systems and they are skilled at doing so. There are certain principles that shape the market. The bigger the system, the more complex the supply chain. Economies of scale are essential to containing costs, and industry should therefore be allowed to form its own partnerships. State led micro-management only undermines efficiency. It is also worth noting that cooperation among 29 countries for the production of key military systems is administratively impossible – but cooperation amongst smaller groups of nations makes eminent sense. Finally, through-life support costs can be twice as high as procurement costs, there are successful cases of transnational cooperation driving down through-life support costs. This needs to be considered when structuring long-term transnational defence industrial collaboration.

19. The lack of investment in R&T/D is eroding the defence industrial base. Investment decades ago helped give NATO country defence industries the lead in technologies, skilled people and sophisticated systems all of which provided the foundation for today's capabilities. Investment today will be essential to ensure future capabilities.

20. Civil companies in the IT sector hold significant cash stocks to invest in new technology. However, security is a cost driver and a policy of incorporating the minimum acceptable security is needed. There are also significant cyber threats to commercial systems that have to be addressed before these are refashioned for military purposes. To upgrade to military standards means more costs, and only defence contractors will assume these costs for such a small market.

21. At the same time, education systems must properly account for the need for new skills in these critical markets. If these industries lose their technological edge, they will soon be out of business.

22. There have been many cooperative programmes over the years but they often had a bad name for delays and cost overruns. The three errors made are:

a. A failure to harmonise requirements leading to too many variants of the same platform;
b. Poor political decision-making which adversely affects work share;
c. Industry errors that under-price bids and promise unrealistic short notice deliveries in order to win contracts.

23. **Leona Alleslev** (CA) asked how reallocating responsibilities among the commercial, military, and defence sectors might take place, and if the industry would lead such a change. She also wondered how best to move more quickly than the enemy in fields like cyber defence. Martin Hill replied that speed is essential in the domain of technology. Procurement is by nature very slow but new paradigms for acquiring critical IT and cyber technologies are needed. NIAG provides one vehicle for conducting a dialogue between clients and high-tech commercial companies. He noted that not all companies will want to participate but larger defence oriented firms like Lockheed and Thales would clearly be willing to go the extra mile to conduct this discussion.

24. **Jean-Marie Bockel** (FR) wondered if Europe would be able to overcome the challenge of the lack of coordination in procurement, following the US model. He asked the speaker if he believed the European Defence Fund was just an outline of good intentions or a possible turning point. Mr. Hill responded that budgets are inherently the product of politics. It is up to the militaries to agree on procurement requirements. Some change is happening, with agencies such as OCCAR (Organisation for Joint Armament Cooperation) gaining power. Merging OCCAR and NSPA (NATO Support and Procurement Agency) would help build a genuine European acquisition agency. But we have to be realistic: we will never get rid of national preferences. The European defence market is nonetheless growing larger. NIAG itself is now looking at how to liaise effectively with the EU defence establishment in Brussels.

25. **Richard Benyon** (UK) invited all members of the ESC to envision a condition of interoperability across the Alliance and wondered if European Allies were ever going to move beyond national preferences insofar as procurement is involved. Martin Hill replied that the most daunting challenge to achieving interoperability is not equipment but the language barrier. Parliamentarians must engage in a dialogue with the military. It is the lack of money that will ultimately make more cooperation essential, he added.

26. Mr Vural asked about the consequences of the reluctance of some countries to share and sell their defence systems within the Alliance. He also wondered about the consequence of Brexit on European defence and cooperation. The speaker confirmed that each nation controls sensitive defence technology exports and that national interest would always prevail over the concerns of other nations. This is a political and not an industrial challenge.

27. Mr Pettersson suggested that even small countries provide niche capabilities, which Martin Hill confirmed. He encouraged Allies to cooperate in the area of troop support (e.g. the training sphere) in order to foster interoperability. This kind of cooperation can spill over into requirements harmonisation, he noted. This is a route that smaller nations, in particular, might consider pursuing.

VII. Presentation by Andreas GOLDTHAU, Professor, Department of Politics and International Relations, Centre of International Public Policy, Royal Holloway University of London, on *Geopolitical and Economic Challenges to Europe's Energy Security*

28. The speaker first addressed fundamental changes in energy markets that have largely been driven by a fundamentally altered gas market. The US shale revolution has unleashed an enduring decline in energy prices, which has brought substantial economic benefits to energy importing countries.

29. Countries that rely on revenue derived from energy exports, however, have suffered. Most oil exporting countries except for Kuwait are running budget deficits due to falling energy revenues. Many of these countries have created implicit social contracts whereby governments, many of which are not elected, are to guarantee the provision of public goods and services in return for public deference to the state. Such social contracts are today under pressure. Those countries that have suffered from a foreign currency liquidity problem (Venezuela, Nigeria) will not be able to pay their way out of the crisis. This could have security implications (migration).

30. Although Russia currently supplies 36% of oil imported to the EU, this is not a particularly acute problem as oil is fungible and globally available. Russia also provides the EU with 63% of its gas imports. But here again, this has become less of a problem for two reasons:

a. The EU has invested significantly in energy transporting infrastructure, and physical connectivity with neighbouring markets has increased dramatically (e.g. LNG import structures);
b. New energy regulations, which have facilitated spot pricing and short-term contracts, have reduced vulnerabilities in the system. Margrethe Vestager, the EU's competition commissioner, has carried out important energy antitrust initiatives which have opened up the market.

A growing LNG market has been made possible by these infrastructure and regulatory changes. By 2020 half of the EU's consumption could theoretically be covered by LNG imports from the United States and Australia.

31. This is not to say that there are no challenges to be faced. American LGN might not make it to European markets because the shipping and conversion costs could be daunting. Russian gas, by comparison, is very cheap and the infrastructure to deliver it is extant. But security considerations are important and overdependence on Russia constitutes a hidden cost.

32. It is also important to consider what a low carbon energy agenda might ultimately mean for government revenue. In Germany, for example, about 50% of federal taxes are, in fact, energy taxes. Energy use changes could have enormous fiscal impacts and OECD countries may soon need to confront these challenges. Fossil fuel exporting developing countries face even more substantial budgetary challenges as countries move away from carbon based energy. It is the "global north" that holds the technology to make the low carbon transition, and it will both generate and attract investment to achieve this end. Countries in the "global south" will have a harder time accessing both the capital and the technology to make this transition.

33. All of this suggests that we are entering a period of geo-economics or strategic rivalry expressed through economic policymaking. Energy policy could lie at the center of this trend, and this will condition how we think about energy security. But while market forces are now aligning to enhance security and generate reliable energy supplies, politics could undermine these trends. That would be a worrisome development.

34. Richard Benyon asked Mr. Goldthau to elaborate on how renewables might alter geopolitics in the MENA region, both as a source of energy for Southern Europe and for Africa. Might it not be possible that poor countries will gain a strategic advantage by enjoying easier access to energy? According to the speaker, the energy sector is conditioned by how it was built at the beginning of the industrial revolution. The low carbon transition will likely make every single household a producer and a consumer of energy. It will decentralise energy production and the system will be structured in a bottom-up manner.

There are, however two obstacles, to achieving this:

a. To embark on a low carbon transition, you must guarantee security to all actors involved. But there are problems on this front: there is a shaky UN regime, and some of the big players are taking decisions which may not be well informed or well-coordinated.
b. By 2030 an additional investment in fossil fuel assets may simply not be possible. Transforming an economy takes 20 to 40 years, and there are risks involved with leaving some countries out of the emerging low carbon order. Such a transition must be thought through and this will require new forms of global governance and a plan to avoid unintended consequences.

35. Mrs Alleslev asked what might be the negative consequences – especially in geopolitical terms – of moving forward without a broad energy plan and what would be the critical success factors by which such a plan might be assessed. The speaker replied that for resource-rich countries, it is important to cope with the challenge of assets becoming quickly “stranded”. Countries will lose the capacity to mortgage these assets to fund the carbon transition. The effects may be very profound and the social contract might not be fulfilled. There could also be subtle policy effects such as the formation of “clubs” of states that would foster low carbon transition. They would embrace trade with other countries only if these countries remain purposefully dedicated to achieving some climate goals. A developing economy might not be able to keep pace and lose privileges as a result. Clear targets will be needed so investment flows in the right direction.

36. **Ausrine Armonaite** (LT) asked the speaker to elaborate on the notion that Russia’s activities in the Baltic Sea do not pose a threat. Domestic production of gas in Europe is slated to decline dramatically over the next decade and imports will rise. The relevant security question for Europe will be whether or not it wants more Russian gas. In percentage terms, Russian gas imports will not increase. The important issue is not whether gas is imported but rather how it is traded. If gas markets become more like oil markets and gas emerges as a genuinely fungible commodity with a global rather than a regional price, the market will grow far more resilient and secure. The EU should not use its regulatory toolbox to prevent projects from happening. Regulatory efforts should focus on providing a level-playing field.

37. Oktay Vural asked the speaker for his assessment of pipeline projects bringing resources from the Middle East through Turkey and onward to Europe. He also wondered about the energy potential of the Arctic region. Mr Goldthau replied that first, such pipelines are going to open up a Southern energy corridor, which could make an important contribution to EU energy security; secondly, markets not politics will determine whether or not there is a case for a pipeline to be built. When looking at Levant resources, these could cover the EU gas demand for the next 15 years and this is significant. But the regional market is too small. It is important to pool production in order to export it to Europe via pipelines. But this is not happening, and this is largely a function of geopolitics in the region. The Arctic poses other challenges. It is difficult geologically (deep sea, temperature) and it is not yet viable due to extraction costs. There is ample LNG passing through the Arctic but we will not see much drilling there in the short term.

38. **Natalia Pouzyreff** (FR) wondered if nations could foster economic development in order to stabilise the African continent, in the manner of the French electrification initiative. It is an initiative that goes to the very heart of what is needed as energy touches upon many important aspects of security. Energy access represents an important component of development but there are two difficulties:

a. Local habits do not necessarily correspond to the way we think about energy systems
b. We should not think about grand projects but about what works locally

VIII. Summary of the future activities of the Sub-Committee on Transition and Development by Menno KNIP (Netherlands), Chairperson of the Sub-Committee

39. 2017 activities:
June – Visit in Serbia
November – Visit to Ljubljana, Slovenia (Rose Roth seminar)

40. 2018 activities:
Report on energy security in Central and Eastern Europe
March – Visit to Odessa, Ukraine (Rose Roth Seminar)
October – Visit to Azerbaijan

IX. Summary of the future activities of the Sub-Committee on Transatlantic Economic Relations, by Jean-Luc REITZER (France), Vice-chairperson of the Sub-Committee

41. 2017 activities:
September – Joint visit in Canada (Ottawa, Yellowknife, Resolute Bay) with the STC

42. 2018 activities:
Report on Challenges faced by free trade
May – Visit to Japan with the Political Committee
June – Visit to London and Toulouse (France) with DSC

X. Consideration of the draft Report of the Sub-Committee on Transatlantic Economic Relations *Assessing and Mitigating the Cost of Climate Change* [167 ESCTER 17 E] by Lilja ALFREDSDOTTIR (IS), Acting Rapporteur

43. The rapporteur began by addressing the issue of tropical storms that have proved particularly devastating this year. Despite the absence of a clear link between climate change and such severe weather events, scientists are convinced these kinds of storms will become more frequent. We must be aware of the costs they entail for our societies. Moody's Analytics estimated the price damage caused by Hurricanes Irma and Harvey at $200 million, potentially slowing US GDP growth by 1% this year. The impact of such weather events will be even greater as sea levels rise.

44. According to Kerry Emanuel (MIT), Atlantic tropical cyclones are unambiguously strengthening, with greater energy of the storms and heavier rainfalls. The loss of Arctic sea ice also has an impact on storms. According to NASA, 2016 was the third year in a row to set a record for the highest global surface temperature. The past ten years have also seen the greatest loss of sea ice ever recorded. While Harvey and Irma were striking the US, flooding in India and Bangladesh killed a thousand people and displaced millions. Some Caribbean Islands have also been thrown into deep crisis because of 2017's hurricanes. Such human security challenges can quickly become transnational security issues.

45. We must adopt strategies to adapt to climate change, and international cooperation is essential. It may ultimately be less costly to try to slow the pace of warming; this is what the Paris Agreement is about. We are still dependant on carbon fuel, but we need to start to move our societies away from such dependency. It will take time, planning and leadership. The virtue of carbon taxation as a potential solution is that it employs economic logic to line up prices with real costs and correct market failures in order to reflect externalities, and it is administratively easy to manage. Technological advantage will play a critical role in lowering carbon use, improving energy efficiency and driving down the cost of renewables as engines of growth and employment. Markets will also be drivers of change (e.g. insurance companies).

46. The rapporteur concluded with a set of recommendations. Regarding the Paris Climate Accord, the report calls for stronger commitment to meet nationally determined contributions. Our Nationally Determined Contributions (NDC) are too modest – they must lay the foundation for a new energy and industrial revolution. More advanced states must play a supporting role for less developed nations, which will likely support the most extreme consequences of climate change and could become a threat to global security (failed states). We must invest in the Green Climate fund and make clean energies more attractive: carbon must be priced to reflect its true opportunity cost. Despite tremendous progress, coordination can lead to achieving greater levels of energy efficiency.

47. **James Sensenbrenner** (US) suggested that climate change was not a relevant NATO PA topic and he noted that the perspective of the rapporteur represented only one perspective. In the United States the public has voted for parties and candidates that hold a very different view of the matter and this view is not reflected in the report. Richard Benyon (UK), noted, by contrast, that the Pentagon itself has described climate change as a risk multiplier. He said that the United Kingdom considers climate change the greatest security issue of our time. Natalia Pouzyreff and Leona Alleslev made similar assertions.

48. The speaker acknowledged the lack of consensus on climate change but asserted again that it is a compelling security, economic and environmental challenge that must be addressed. She underlined that in Iceland –which has a bilateral security agreement with the US – there is a strong emphasis on matters such as the impact of sea rise and possible opportunities and challenges linked to the melting of Arctic ice. Implementing the Paris Agreement with a bottom-up approach is key to its success.

49. **The draft report** [**167 ESCTER 17 E] was adopted.** The United States representative in the room voted against adoption and asked that this be noted in the record.

XI. Consideration of the draft Report of the Sub-Committee on Transition and Development *Economic Transition in the Western Balkans: An Assessment* [168 ESCTD 17 E] by Richard BENYON (United Kingdom), Rapporteur

50. The rapporteur began by reminding the committee that peace and stability in the Western Balkans remains a central priority for the countries of the Alliance. Exactly how this should be achieved remains an open question and each country in the region will follow its own path, but it is the duty of Allied members to support them. NATO actively enhances and promotes stability through peacekeeping, training, and partnership programmes, as well as KFOR and Operation Althea. It complements the EU's engagement in the region, even though this has diminished somewhat in recent years.

51. The rapporteur outlined a range of positive trends in the region: economic reforms reinforced by market mechanisms, reinvigorated economic growth and a degree of reconciliation and political stabilisation. But there is much more work to be done. Commitments to tackle the root causes of structural unemployment coupled with economic growth will help foster growth and investment. In Serbia, for instance, both fiscal and commercial deficits have narrowed substantially, debt is no longer growing and important tax changes have been introduced. Since our last meeting, NATO has officially welcomed Montenegro as a new member of the Alliance; Montenegro's work to implement a number of reforms is noteworthy. But the legacy of war, corruption and undemocratic governance is a heavy one. Several of the Western Balkan economies are characterized by low competitiveness, a heavy reliance on remittances, unsustainable current account deficits, the underutilisation of human capital, a lack of regional integration, high levels of patronage and corruption, a media that is not sufficiently independent, and a pervasive informal sector undermining social trust and government legitimacy. The 2008 financial crisis exacerbated these problems, as well as a renewal of nationalist sentiments. Public support for the EU and NATO has been waning.

52. **Dragan Sormaz** (RS) welcomed the draft report and called it balanced and realistic. He confirmed that Serbia would be a predictable and good partner to NATO and that the country is very dedicated to joining the EU. **Georgios Kyritsis** (GR) asked to amend §19.2 with "including minority rights". The amendment was accepted.

53. **The draft report [168 ESCTD 17 E], as amended, was adopted unanimously.**

XII. Consideration of the draft General Report *The State of Europe's Defence Industrial Base* [166 ESC 17 E] by Jean-Marie BOCKEL (France), General Rapporteur

54. The rapporteur suggested that a European drones project is the kind of initiative that can help Europe achieve a greater degree of strategic autonomy. In the past, the failure to adequately coordinate military requirements and to overcome national preferences has made it difficult to move in the right direction.

55. To succeed in the area of UAVs, European defence production will have to be more competitive. A single European defence market is needed but there must be a greater willingness to compromise among partners. A range of European defence projects is underway, but these must be deepened if Europe is to construct a sufficiently powerful pillar within the Alliance.

56. Fragmentation is costly for Europe in both strategic and financial terms: 80% of orders and 90% of research is conducted at the national level. The weakness of the Defence and Technology Industrial base (DTIB) over the long term could threaten the cohesion of the Alliance. The discussion about burden sharing is also about filling the capability gaps. The United States has managed to restructure its defence market and is both an ally of and a competitor with Europe. Greater cooperation is needed but Europe must also respond to these competitive challenges.

57. The European Defence Fund will have allocated €500m for research as of 2020 and has earmarked €5.5bn per year for capabilities development. It is a small fund, but it conveys a strong political message, which has become all the more important in light of Brexit.

58. The rapporteur also introduced the resolution based on his report. In order to respect our governments' pledge made at the Wales summit, he said, we must restructure defence budgets to support policies aimed at pooling & sharing capabilities. This will help allies share the burden more equitably. It is necessary to invest for the long term. The goal must be to reduce fragmentation and this requires a constructive dialogue with society. To promote a strong DTIB is not sufficient he said, we must also define common objectives in cooperation with the EU.

59. Mrs Alleslev reminded the committee that the Alliance should not limit the strengthening of the DTIB to Europe; the conversation should also be about transatlantic capabilities contributing to NATO's DTIB.

60. **The draft general report [166 ESC 17 E] was adopted unanimously.**

XIII. Consideration of the amendments and vote on the draft Resolution *The European Defence Industrial Base* [202 ESC 17 E] by Jean-Marie BOCKEL (France), General Rapporteur

61. The committee considered and voted on the eight amendments.

62. **The draft resolution [202 ESC 17 E], as amended, was adopted.**

XIV. Election of Committee and Sub-Committee Officers

63. **The following officers were elected:**

Economics and Security Committee (ESC)

Chairmanship	**Ivans Klementjevs (LV)**
Vice-Chairmanships	**Menno Knip (NL); Richard Benyon (UK); Juozas Olekas (LT)**

Sub-committee on Transition and Development (ESCTD)

Chairmanship	**Michal Szczerba (PL)**
Vice-Chairmanship	**Luk Van Biesen (BE)**
Rapporteur	**Ausrine Armonaite (LT)**

Sub-committee on Transatlantic Economic Relations (ESCTER)

Chairmanship	**Faik Oztrak (TR)**
Vice-Chairmanship	**Congresswoman Lois Frankel (US)**
Rapporteur	**Lilja Dögg Alfreðsdóttir (IS)**

64. **All eligible officers were re-elected for one year.**

XV. Any other business

65. No other business was raised.

XVI. Date and place of next meeting

66. Mr Oztrak informed the delegates that the next meeting of the ESC would take place in Brussels and at the OECD in Paris on 8 and 9 February 2018.

XVII. Closing remarks

67. Mr Oztrak thanked the delegates for their support during his four-year chairmanship of the ESC. He also thanked the guest speakers, the Romanian delegation, the NATO PA Secretariat and the interpreters.