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ROLE OF TRANSNATIONAL DEFENCE FIRMS IN THE INSTITUTIONALISATION¹ OF THE EUROPEAN DEFENCE EQUIPMENT MARKET

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Introduction

Regulation in armaments cooperation which has recently emerged at the level of the European Union constitutes a remarkable development in the evolution of the EU in general and its newly acquired autonomous military capacity in particular. The armaments policy area has been historically regarded as a strict prerogative of sovereign nation states, to be insulated from the reaches of international organisations and supranational institutions, even in such an arguably *sui generis* case as the EU. Yet, within this field, which encompasses the production, trade, and procurement of military equipment and services, the European Defence Equipment Market (EDEM) has emerged as a nascent policy regime, endowed with the first tangible rule-making instruments (Wilson, 2000). In particular, an EU-wide defence procurement framework is developing within the EDEM construct, represented by two constitutive elements – the EDA’s 2006 Code of Conduct on Defence Procurement and the 2009 Defence Procurement Directive issued by the European Commission (EC).

Like the EDA itself, the 2006 Code is intergovernmental, voluntary and legally non-binding. Subscribing member states commit to enhance common competitiveness through lowering mutual trade barriers and aligning policies in defence procurement activities which are exempt from EU’s internal market procurement rules based on Article 346 of the Treaty on the Functioning of the European Union (TFEU). This clause grants member states the right to derogate from existing EU procurement law—intended to inject “more Europe” into all trade sectors, including defence — to protect their “essential security interests.” In contrast, the Defence Procurement Directive (EC/2009/81) which entered into force on 21 August 2009 is a binding legislative instrument designed to harmonise member states’ fragmented procurement policies, while making them more transparent and competitive.

Most important for this discussion is the effect of the Directive on Article 346, which is the member states’ institutional instrument of choice when it comes to asserting sovereignty in defence procurement. The Directive

¹ As applied to the Code of Conduct and Defence Procurement Directive institutionalisation is understood as the prescription of common rules, legalised in the former case and voluntary in the latter, emanating from and monitored by EU institutions, to the issue area of defence procurement. Put differently, the issue area of defence procurement is progressively institutionalised as it becomes ordered by sets of rules embodied in the Code of Conduct and Directive.

has for the first time imposed limitations on national governments' invocation of the exemption, obliging them to convince the Commission that this measure is indeed "essential for the protection of [their] essential security interests" (Art. 16). Until now, member states have made persistently wanton use of Article 346, and jealously guarded their prerogative to do so (Koutrakos, 2010: 209-211). Although not legally binding, the Code of Conduct also conditions states' policy choices through peer pressure and reciprocity provisions. Furthermore, it inserts standards of behaviour into procurement carried out under Article 346, an area previously wholly subject to member states' discretion (Georgopolous, 2007: 220; Heuninckx, 2008). Consequently, these beginnings of EDEM represent emerging rules emanating from EU institutions that constrain the decision-making autonomy of EU member states in defence procurement matters. For the first time, an "EU level" of importance has entered member states' policy calculus in defence procurement.

This development is both important and perplexing for several reasons. Firstly, dominant theoretical trends in international relations, in both realist and constructivist traditions, view the production, acquisition, and maintenance of armaments as inextricably connected to nation state sovereignty. Secondly, such conceptualisation is consistently reflected in national policymakers' rhetoric concerning the defence sector, while the empirical record reveals enduring fragmentation, protectionism and duplication within EDEM that may be traced back to fundamental differences between member states' political traditions, foreign policy orientations, and strategic cultures. At the core of the economic rationale for protectionism lies the assumption and institutionalised recognition that national security ought not to be scrutinised by an external authority. Finally, as a direct consequence of this, the defence procurement field in the EU has resisted prior attempts at harmonisation and integration. The tentative efforts of the Commission in 1996 and 1997 to regulate defence industrial matters² led to no tangible policy outcomes beyond vague and non-committal recommendations.

Against such backdrop, it is all the more remarkable that the Directive was "discussed, agreed, and adopted" with unprecedented speed, and despite significant opposition from member states and industry (Georgopolous, 2010; Interview, 2011).³ The Code of Conduct, and the EDA in general, have also been noted for surprising inter-member cooperation and speedy establishment (Georgopolous., 2006: 221-222; Interview, 2011).⁴ It is therefore puzzling to see member states acquiescing to the terms of the Directive in particular, especially as voluntary, intergovernmental cooperation was already in place through the Code of Conduct. Moreover, given that member state governments have a history of fiercely guarding their defence procurement autonomy, that divisions between arms producing and arms consuming member states are deeply entrenched, and that prior integrationist efforts in this policy arena have repeatedly failed, the dynamic represented by EDEM constitutes an intriguing analytical puzzle: why are EU-level defence procurement rules emerging which clearly constrain national autonomy? This

² COM(96) 10. Available at: http://eur-lex.europa.eu/Result.do?T1=V5&T2=1996&T3=10&RechType=RECH_naturel&Submit=Search; COM(97) 583. Available at: ec.europa.eu/internal_market/.../defence/com97-583-final_en.pdf

³ Brussels, December 15, 2011, Aerospace and Defence Association of Europe (ADS).

⁴ Brussels, December 15, 2011, Senior Official in DG MARKT, European Commission

leads to a dual research question. The first, ancillary aspect seeks to identify the causal process leading to the emergence of the Defence Procurement Directive and the Code of Conduct as the most tangible aspects of EDEM today. The second and main aspect endeavours to account for the more costly move member states have made toward binding regulation in the shape of the Directive, having already enacted a soft cooperation mechanism represented by the Code.

A considerable body of analysis attributing causal primary to economic and industrial aspects in the emergence of defence procurement within the European Union has taken shape. A significant proportion of it examines the material costs and inefficiencies arising from the continued fragmentation of EU defence procurement framework, and highlights the benefits of an integrated market (Hartely, 2008, 2003). A prominent strand in this argument points to an increasing competitiveness gap between the fragmented European industry and its US counterpart (Hartley 2006, James, 2008, Callum and Guay, 2002). The resulting economic rationale for defence procurement harmonization is sometimes linked to a description of the effects transnational industrial consolidation within the EU can have on promoting regulatory and political integration as a response to economic pressures (Schmitt, 2000; Taylor, 1990). Other “unifying” forces include the pressures exuded by post-Cold War economic globalisation, which seem to push governments toward common approaches to defence procurement. Moreover, the literature’s emphasis on the increasing “competitiveness gap” between EU and US industry introduces an external actor into my research whose policy choices might undermine or even threaten the economic viability of the European defence industry. Building on the importance of free market liberalism, Hoeffler (2012) makes use of the concept of economic patriotism to argue that the recent promotion of EU-level defence industrial policy by dominant arms producing member states, is in fact part of their strategy to guarantee competitiveness of domestic defence industry, which has become increasingly denationalised and transnationalised within the EU. However, although the literature reviewed above provides a detailed consideration of the economic pressures and industrial imperatives historically at the heart of European integration and logically potent in the case of defence procurement as well, it does not specify the actor-driven causal chain necessary to unlock the empirical puzzle presented above. More specifically, how exactly have the dynamics—EU industrial consolidation, economic globalisation, and evolving defence economics—which have been in force for two decades translated into the beginnings of EDEM we see today?

The Claim

Therefore, to contribute to a more precise and empirically-rich understanding of member states’ agreement to binding defence industrial measures in the shape of the Defence Procurement Directive proposed by the Commission, this paper proposes the following hypothesis:

Transnational defence firms and industry associations, created by industrial consolidation within the EU, have lobbied member state governments to agree to harmonisation measures.

Before progressing to its more detailed discussion, it is necessary to map out the “distance” between the preferences of member states and transnational defence firms. Successful lobbying entails skilful nudging and convincing of decision-making authorities by private actors to adopt policies that are beneficial to them. The initial disposition of the former—whether broadly sympathetic, disinterested, or hostile—shapes the strategies and effectiveness of the latter. The nuanced relationship between the EU’s primes, that is, BAE Systems, EADS, Thales and Finmeccanica, and governments of the member states in which they are headquartered is crucial here. Firstly, it is not a coincidence that these firms are based in EU’s largest defence spenders and military powers – Britain, France, Germany, and Italy.⁵ Second, the connection of defence industrial capability to notions of state sovereignty and reality of economic well-being has given rise to a “close identification of interests” between national defence industry and “their” governments (Eliassen and Sitter, 2006:4). Thus, despite transnational operations, these firms have strong historic and political ties to the governments, while their ministries of defence constitute key sources of revenue. It is a symbiotic relationship, however, as defence industries are not only strategically important to “their” governments and armed forces, but are also significant providers of domestic employment and national income. This has led to a somewhat schizophrenic approach on the part of national governments, who on the one hand recognised that industrial consolidation bolstered by competition-enhancing regulation is essential to defence industrial competitiveness, but at the same time remained terrified that industrial capacity, and with it employment and the “national character” of its defence champions, will slip away to another member state.

As such, member states’ initial responses to the Commission’s legislative proposals appear to have ranged from antagonistic to lukewarm, having always been wary of any supranational designs on “their” defence and security realm (Georgopoulos, 2008a; Georgopolous, 2008b). For instance, the reaction of France, represented by Alain Picq, then the armaments counsellor in the national NATO delegation, to the Green Paper on Defence Procurement issued by the Commission, was to favour non-binding, intergovernmental code of conduct, which would only gradually pave the way for a Directive in the long term (SDA: 2005). Such a position appears markedly at odds with not only the determination of the French Council Presidency to secure the passage of the Directive throughout 2008, but also with the preferences of industry, expressed by the then Secretary General of primarily the EU-wide Aerospace and Defence Industries Association of Europe (ASD), which is essentially a lobby group advancing the interests of national EU defence companies and industrial associations vis-à-vis the governance apparatus of the Union. Furthermore, accounts of the directive proposal’s passage through the European Council, that is, the Public Procurement Working Party of the Competitiveness Council, the sub-grouping in the Council of Ministers which “housed” deliberations of the Defence Procurement Directive, attest to a slow and difficult start. For instance, several months after the proposed Directive reached the Council, a number of member states, France, Germany, and Italy among them,

⁵ During the timeframe examined by this research, EADS headquarters were in Paris and Munich, having been moved to Toulouse in 2012.

have requested the Council's legal department to provide them with a confirmation that the Commission did not overstep its Treaty-given powers in proposing the extension of Internal market rules into defence procurement. These governments were reportedly opposed to the market opening measures on the table.⁶ Such resistance may be attributed not only to several specific points of contention, but more fundamentally to the proposal's status as an "upheaval for many member states and their armies" who are "used to buying defence equipment from their usual national supplier," according to one diplomat close to the negotiations and quoted by the daily *European Report* in June 2008.⁷ Therefore, in order to substantiate this hypothesis, one would also expect to see a gradual emergence of a conciliatory position on the part of decision-makers, one that would accommodate the preferences of transnational defence firms.

Assessing interest group influence in the EU context has been notoriously challenging for scholars and researchers. Nevertheless, promising strategies have been developed, such as projects designed around in-depth examination of one case with the help of process-tracing. To assess interest group influence, their preferences are first examined, then, their lobbying activities are traced. The findings are juxtaposed against the reflection of interest group preferences in policy outcomes as well as the group's assessment of their satisfaction with the results. This is an approach adopted by most studies of special interest influence within the EU (Moravcsik, 1998; Warleigh, 2000; Michalowitz, 2007). An alternative method of influence measurement is that of "influence attribution," which relies on the groups' assessments of their own influence on policy outcomes as well as examination by experts (March, 1955; Dur, 2009:1224). Employed widely in studies of lobbying in the United States, researchers of the EU have generally stayed away from "attributed influence" methodology, although, of course, exceptions do exist (Edgell and Thomson, 1999; Dur and De Bievre, 2007). The following assessment of the defence primes' lobbying efforts in favour of the Defence Procurement Directive, and the competitiveness boost it would ostensibly engender through greater market openness, employs a combination of the two approaches described above. In particular, as this discussion entails a single-case study, process tracing is used to first establish the interests of transnational defence firms in the EU in the realisation of the Directive's key aims, that is, harmonisation and market openness, leading to a better competitive stance vis-à-vis the United States. Such industrial demands are juxtaposed against member states' opposition to supranational defence procurement measures.

The second stage of substantiation entails tracing the defence primes' political activities, involving a reconstruction of events and positions as well as industry's accounts of "attributed," or rather "claimed" influence. In addition, several specific points of contention in the proposed legislation, namely, the potential risk to state investment into research and development (R&D) and restrictions on offset arrangements, are

⁶ Verheyde-Gros, N. (3 June 2008). "Legal Basis Confirmed for Opening Up Defence Procurement," *Europolitics*, Available at: <http://www.europolitics.info/legal-basis-confirmed-for-opening-up-defence-procurement-artr146478-10.html>

⁷ Verheyde-Gros, N. (3 June 2008). "Legal Basis Confirmed for Opening Up Defence Procurement," *Europolitics*, Available at: <http://www.europolitics.info/legal-basis-confirmed-for-opening-up-defence-procurement-artr146478-10.html>

used to infer the presence and degree of industrial influence. These aspects of the Directive are not only amongst its most overt constraints on member states' notions of sovereignty, but also crystallise the fault-lines between the preferences of member states and transnational defence firms. Before examining this empirical record, however, it is important to understand the forces shaping the European defence industry throughout the first decade of the 21st century. This will lead to a better appreciation of the transnational firms' interests, opportunities, and constraints in bringing about a more integrated EU-wide defence market.

EU Defence Industry: Early 1990s – Late 2000s

Demand Factors

In order to understand the pressures and opportunities facing EU's defence industry during the first decade of the 21st century, one must appreciate the post-Cold War transformation of both the demand and supply aspects of the European defence equipment market. The dissolution of the Soviet Union has precipitated a transition within most EU member states' strategic planning away from large-scale confrontation with the Communist superpower and toward expeditionary warfare. Avoiding the East-West conflict has begun to give way to planning for crisis-management operations such as peacekeeping and humanitarian intervention (Giegerich and Nicoll, 2008: 100). As of 2013, troops from EU member states have been deployed on military missions to the Democratic Republic of Congo, Mali, the Gulf of Aden, Afghanistan, Kosovo, Bosnia and Iraq, in both EU and NATO configurations.⁸ They have participated in UN peace-keeping missions and taken part in the aerial bombardment during the 2011 war in Libya. Furthermore, with the USSR no longer posing an existential threat, and the likelihood of war on the European continent—at least war as European societies and policymakers thought of it—greatly diminished, EU governments have begun slashing their defence budgets, in some cases drastically.

At the same time, European leaders have found that re-investing the “peace dividend” into the welfare-state elements of public spending was much more “electorally promising” and seemed to reflect the priorities of their publics (Liberti, 2011: 15). However, this transition has been far from seamless, and, indeed, remains incomplete in several key areas. While a number of defence assets have been transferred to private ownership and weapons acquisition programmes reduced in both quantity and scope, European ministries of defence have found that large, Cold-War era “legacy” procurement projects are painfully difficult and costly to cancel (Giegerich and Nicoll, 2008:101). As a result, the EU finds itself with “too much heavy Cold War weaponry” and militaries that, despite the reforms undertaken across the member states in recent years, are only partially re-oriented towards the more efficient, expeditionary structures required by today's operations (Valasek, 2011: 1; Giegerich and Nicoll, 2012: 60). In addition, with Cold-War era procurement programmes eating up precious funds, defence policymakers find themselves scrambling to finance development of modern weapons

⁸ See the section on “EU Operations” of the official website of the Common Security and Defence Policy (CSDP), available at: <http://www.consilium.europa.eu/eeas/security-defence/eu-operations?lang=en>

systems and technologies, such as C4ISR and precision guided munitions, as the EU's performance in Libya embarrassingly exposed (Giegerich and Nicoll, 2012: 54).

Supply Factors

How, then, have the EU's defence suppliers responded to the demand conditions outlined above? The "collection of national fiefdoms" that was the European defence industry in the immediate post-Cold War period has found that its traditional, nearly exclusive reliance on national ministries of defence for revenue seemed unsustainable in the 21st century (Callum and Guay, 2002: 757). The initial reaction of European firms to this situation may be categorised according to two patterns. The first is internal consolidation involving the acquisition of smaller domestic firms by large national champions, such as that pursued by Germany's Daimler-Benz. The second pattern involved the acquisition of the defence businesses of industries across the EU by the large defence firms, such as Thomson-CSF of France (now Thales) buying the Dutch company Phillips' defence electronics division. Transnational structures were largely limited to joint ventures or multinational consortia, which left the firms' national orientation and independence intact (Callum and Guay, 2002: 758). Important exceptions to the largely national character of European mergers and acquisitions were Thales and EADS (European Aeronautic Defence and Space Company). The former grew out of a merger of Thomson-CSP and Dassault Electronique, with a subsequent acquisition of Aerospatiale's satellite business and Britain Racal Electronics. Similarly, EADS was a result of the merger between France's Aerospatiale and Matra, later to be joined by DASA and CASA of Spain. The closest entity to a "pan-European" defence company, EADS also owns Airbus of Germany (Guay, 2007). BAE Systems similarly originated in a national merger, namely, between British Aerospace, as it was formerly known, and GEC-Marconi, and proceeded to spend the 2000s rapidly expanding into the US market as well all acquiring assets in Europe to become the EU's largest defence company, and third largest in the world. Finally, Italy's Finmeccanica absorbed the country's state defence assets and acquired the UK's Westland (Giegerich and Nicoll, 2008: 108).

Consequently, the first decade of the 21st century saw the emergence of four dominant defence firms in the EU- BAE Systems, EADS, Thales, and Finmeccanica. These primary suppliers—primes— share characteristics such as production across the defence and security sectors, transnational structures encompassing a number of national markets, and designs on ever-bigger slices of the international defence sales pie (Giegerich and Nicoll, 2008: 111). However, European defence industrial consolidation and rationalisation has been uneven and incomplete. Firstly, re-structuring has occurred much more in the aerospace sector than the land vehicle and naval sectors, which have remained hamstrung by overcapacity, duplication, and inefficiency (Hartley, 2011: 104-109). These sectors are also particularly fragmented along national lines, although, as Chapter I emphasised, inward national orientation towards 27 small markets and ownership structures is a persistent feature of EU's defence industry. This is also true of most of Europe's

second-tier defence suppliers, which have not consolidated into larger cross-border firms, reinforcing the industrial landscape characterised by overcapacity and fragmentation (Guay, 2007).

The evolution of the EU defence industry has also been shaped by the strategies of its chief competitors – companies in the United States. In the aftermath of the Cold War, the US military and defence industry were also adapting to the disappearance of their strategic *raison d'être* in the face of the Soviet Union, but were doing so much more quickly, efficiently, and thoroughly than their European counterparts. Therefore, while the military procurement budget of the United States has declined throughout the 1990s, the Clinton administration dealt with defence market overcapacity by actively pushing the American defence industry along its course of rapid rationalisation and consolidation, including, if deemed necessary, complete “exit” of some firms from the defence business. Policies of the first George W. Bush administration prioritised information superiority across the full spectrum of military operations and accordingly mandated a sustained upsurge in R&D spending (Mawdsley, 2003: 9; Hamre and Serfaty, 2003). Moreover, the 1990s spawned the traditional US policy of governmental support to its defence industry in the form of export aids and R&D investment. This has resulted in an industrial landscape characterised by a very small number of “giants” such as Boeing, Lockheed Martin, and Northrop Grumman, and General Dynamics that not only boasted lower costs and higher production volumes than their European competitors, but were also overtaking them in competition for governments’ increasingly scarce defence procurement funds – first in their “home” markets of EU member states and, soon, in the increasingly big-spending “rising powers” eager for expensive weapons programmes.

As a result, by the time the European Commission released at the end of 2007 the “Defence Package” containing its proposal for a defence procurement directive, the EU defence industry was suffering from a serious “competitiveness deficit.” Lack of harmonised Union-wide equipment requirements and procurement standards has prevented the emergence of a cross-border single market, forcing companies to position themselves towards a large number of differing national demands. This, in turn, left companies with small production volumes and thus large costs, precluding economies of scale, learning, and scope (Hartley, 2006:478). Furthermore, differing procurement structures and requirements deny EU defence firms the certainty needed for the long-term planning that is essential to innovation, alliance building, and R&D investment (James, 2005: 9). Finally, EU governments continue to support industrial overcapacity, primarily in land and naval sectors, and enact protectionism policies, for both, more concrete industrial policy reasons and more nebulous but equally powerful perceptions of national sovereignty. These constraints were also frustrating EU’s industries’ efforts to secure opportunities in the international defence market, where their higher costs and lagging innovation helped their American rivals repeatedly out-compete them.

Influence of Market Imperatives and Non-State Actors: Evidence and Indicators

Taking into account the adverse market conditions described above has pointed to the reasonable conclusion that reduction of barriers to cross-border business opportunities and harmonisation of procurement means within the EU, which the EDA's Code of Conduct and the Commission's Defence Procurement Directive aim to achieve, would benefit industry through enhancing its competitiveness. Consequently, the EU's transnational defence firms would stand to gain from these instruments and would thus have an interest in their approval and implementation. This section traces the primes' efforts to achieve just that, garnering indicators of their success during each stage of the policy process – from agenda setting, through agenda shaping, to decision making.

Agenda Setting: Bemoaning the Transatlantic Competitiveness Gap

At a certain point during the early 2000s, EU's transnational defence firms began to voice their grievances more concertedly and coherently. In particular, their woes coalesced around two aspects of their woes. First, EU large primary contractors repeatedly and shrilly emphasised the looming danger of Europe's industry becoming a "sub-contractor" of US firms (SDA, 2006: 11). Second, industrial players zeroed in on the specific aspect of the EU's regulatory genome, the Lisbon Treaty, which they believed sustained the market barriers plaguing their operations. Finally, their first calls for compulsory measures, rather than merely voluntary, ad hoc instruments, to enhance competition and ensure self-sufficiency have surfaced. These sentiments and demands seem to have captured the attention of policy makers, as one sees them reiterated throughout the remainder of the policy process leading to the adoption of the Code of Conduct and Defence Procurement Directive. For instance, in its 2005 resolution endorsing the Commission's Green Paper on Defence Procurement, the European Parliament stressed that rectifying the fragmentation of the EU's defence equipment market would enhance industrial competitiveness, due to increased production runs. The Parliament also went to some lengths to make the case for opening the defence market to competition, arguing that this measure was a "precondition for strengthening a financially viable EU armaments industry" and building an "autonomous and powerful industrial base" not only for more efficient procurement but also for "ensuring necessary defence capabilities (European Parliament, 2005).

The grievances of Europe's major industrial players have for a number of years lamented the so-called "competitiveness gap" separating them from their American counterparts. In their telling, barring urgent remedial action, this rapidly widening divergence threatened to turn EU defence industry into no more than sub-contractors to the US behemoths. For instance, on April 28, 2003, just over a month after the Commission issued its Communication *European Defence – Industrial and Market Issues* (COM(2003) 113), the official start of a process that culminated in the Defence Procurement Directive, the then-CEOs of EADS, BAE Systems, and Thales published a collective open letter to the governments of EU member states. In the

document, printed in the *Journal* of the Royal United Services Institute (RUSI), a London-based think-tank, the executives of the EU's largest defence firms called on policy-makers to "quickly address the gap in resource and capability existing between the two sides of the Atlantic in order for Europe to be seen as a credible player on the international stage." A crucial component of this objective, according to the CEOs, is "aligning [national] defence investment spending;" and the industrialists viewed the establishment of a European Armaments and Strategic Research agency, first formally proposed by the Defence Working Group of the Convention on the Future of Europe, as the optimal way to achieve it. Such an Agency, would then promote "joint [European]... development and acquisition" of military capabilities, which would be of "massive strategic importance for the future of the European defence industry."⁹ The executives reiterated their concerns the following year in another public statement, in which they warned that "industry in Europe is under enormous competitive pressure from the United States," which, if left unfettered, would lead to the "overtaking of indigenous defence technology" and a detrimental reliance on "foreign technologies."¹⁰

In order to reverse this spiral, the CEOs called for policies that would promote defence industrial consolidation within the EU. In September 2004, anticipating the impending Green Paper issued by the Commission seeking stakeholders' views on its proposed defence procurement reforms, Alexander Reinhardt, the then EADS defence spokesman, stated that the company "would welcome a freeing-up of procurement with open arms." He also spoke for other EU transnational defence firms such as BAE Systems, Thales, and Finmeccanica when he added that the proposed measures would help the large industrial players with units across the EU to overcome the persistent "burdens and barriers between national markets."¹¹ A sense of urgency regarding measures to this effect was also underscored by the Secretary General of ADS at a Commission-organised seminar on the issues raised by the Green Paper. Specifically, Roger Hawksworth called for unified procurement procedures amongst member states, which would go a long way to "simplify life for industry."¹² In April 2006, presumably not seeing the desired progress towards this objective, EADS spokesman at the time Alexander Reinhardt ruefully lamented that EU "governments are ready to go for uniting their currencies- in fact they are ready to unite a great deal of their economic activities- but they are not ready for Europe-wide defence procurement."¹³ For him and the majority of EU's defence industry his organisation encompassed, this entailed equally paramount objectives of decreasing reliance on external—that is, American—sources for key defence technologies and competitiveness within a European defence market worthy of the name. This objective, in turn, necessitated an EU-wide industrial scope and a common

⁹ Ranque, D., Hertrich, R., Camus, P., and Turner, M. (28 April 2003). "Letters: An Open Letter from the CEOs of EADS, Thales and BAE Systems to the European Community Governments," *The RUSI Journal*, 148(3), p. 7-8

¹⁰ Jones, S.G., Larrabee, F.S., (1 January 2005), "Arming Europe", *The National Interest*

¹¹ Chapman, P. (2 September 2004). "Bolkestein Touts Opening of EU's Weapons Market," *European Voice.com*

¹² "Public Procurement: Support for Opening Up Defence Market from Member States and Industry," (20 April 2005), *Europolitics*

¹³ Kanter, J. (7 April 2006), "Europe's Uphill Fight on Military Spending," *The New York Times*, available at: http://www.nytimes.com/2006/04/07/business/worldbusiness/07iht-wbdefense.html?_r=3

approach to defining defence industrial priorities based on sharing military assets and accepting a degree of inter-dependence.

Agenda Shaping

Calls for Binding EU-Wide Instruments

As the likelihood of such compulsory measures seemed to increase with the Commission's successive policy documents, industry's calls for binding EU-wide instruments to inject competition into the EU's fragmented defence market grew yet stronger. Speaking on the eve of the signing of the EDA's Code of Conduct in Defence Procurement in November 2005, Tom Enders, EADS CEO and Chairman of ASD at the time, expressed the broadly-shared view that a binding, rather than a voluntary, competition regime was necessary to liberalise defence procurement in the EU.¹⁴ Moreover, after the ASD had submitted its response to the Green Paper on Defence Procurement, the Association's Defence Director Gert Runde emphasised the organisation's support for the Commission's objectives as expressed in the document, "for obvious reasons- it will make our markets more transparent and open them up Europe-wide." Indeed, even after the Code had been signed, EU's defence executives reiterated their criticism of its voluntary and non-binding nature as insufficiently deterrent of competition evasion by national governments. Furthermore, remarking with disapproval that the Code only covers 15 per cent of new equipment contracts, Thomas Diehl, president and CEO of the German defence engineering firm Diehl, unequivocally stated that, therefore, "the single European defence and security market is a must."¹⁵ This assertion was echoed in the October 2006 statement by then-Director General of the Defence Manufacturers' Association (DMA), the UK's defence industrial grouping which has since been absorbed into the British defence association ADS. Specifically, the official stated that his organisation supports "initiatives to stop countries making too liberal a use of Article 346" and to make "open competition the rule."¹⁶ Indeed, the executive remarked that the measures then underway in the EDA and the Commission "fall short of compulsion" and more must be done to "discourage countries from blatant protectionism."¹⁷

Consequently, as a whole, the release of the Defence Package by the Commission at the end of 2007 elicited a positive reaction from industry, the British ADS among them. The Chief Executive at the time also voiced ADS members' eagerness to "play its part in shaping the proposal", and in particular finding a balance between greater competition and "the retention of national industrial defence capability."¹⁸ In the 2007 ASD Annual Report, the Defence Commission of the ASD identified as its paramount goal for the upcoming year "encouragement of the implementation of appropriate and robust defence industry, cooperation and market policies at EU level" (ASD, 2007: 9). Under this overarching objective, "promoting the creation of a

¹⁴"EU Poised to Spur Competition in Arms Market," (19 November 2005), *Agence France Presse*

¹⁵ Jones, S.G., Larrabee, F.S., (1 January 2005), "Arming Europe", *The National Interest*

¹⁶ "Defence Industry: EU Facing Uphill Battle to Open Up its Defence Industry," (20 September 2006), *Europolitics*

¹⁷ "Defence Industry: EU Facing Uphill Battle to Open Up its Defence Industry," (20 September 2006), *Europolitics*

¹⁸Cowan, G. (6 December 2007). "Europe Embraces Defence Industry Market Reform," *Jane's Defence Industry*.

genuinely European defence equipment market” as the first item (ASD, 2007: 9). This position was, however, not without nuance. In particular, during the run-up to the release of the Defence Package in 2007, the prominent defence news outlet *Jane’s Defence Weekly* reported an EU industry official expressing scepticism that firms would in fact take advantage of the proposed Directive’s provision for complaining to the European Court of Justice, if they felt that they were unfairly excluded from contracting opportunities. In a world where many firms’ main source of revenue were ministries of defence and contractual relationships take long years to develop, bringing governments to court was not an easy option.¹⁹

Interaction with the European Commission: Courting or Clashing?

Once the full implications of the *Defence Package* proposals sunk in, however, industrial players began to ameliorate potential risks from arguably the most contentious issue raised by the Directive – that of offsets. As will be demonstrated below, the issue of offsets also embodies the divergent preferences of European defence industry and the European Commission as the initiator of defence procurement legislation. Defence offsets are requirements placed by national governments on foreign defence suppliers, in which the former “compensates” the latter for the large expenditure by re-directing some benefits of the defence contract back into the purchasing country’s economy. Offsets have long been part and parcel of “doing business” in defence. Defence companies have come to rely on offset packages to gain an edge on their competitors and receive generous export credits from their home governments. At the same time, offset beneficiaries, both companies and governments, which view offsets as industrial policy tools, have relished the investment infused through offset requirements. Therefore, offsets constitute a particularly sensitive area for both industry and nation states. As inherently discriminatory instruments, they by nature violate rules of the Single Market, and have long elicited the ire of the European Commission. Consequently, the proposals of the Defence Package stood to make both direct and indirect offsets nearly impossible for industry to provide.

Since an increasing share of their business is also conducted across borders, one would expect that transnational EU primes would find the accompanying requests for offset projects burdensome, costly, and detrimental to competitiveness, especially as the bigger US companies may always offer bigger and better offset arrangements (EDA, 2007: 44-45). In fact, the foremost trade publication dedicated to defence offsets, *Countertrade and Offset (CTO)* has reported that several primes remain vehemently opposed to offset (Shanson, 2007: 7). Yet, when it comes to the primes, one encounters their opposition, rather than approval, to restrictions on indirect offsets proposed by the Commission. Speaking during the final stages of negotiations over the Directive, the then Commission for Enterprise Guenter Verheugen lamented that in discussions with the EU executive regarding offsets, industry’s message was the ambivalent ‘we don’t like that, but please don’t take it away from us!’²⁰ While it may well be that defence firms view offsets as an unfortunate “fact of

¹⁹ Tigner, B. (18 October 2007), “Commission Prepares to Encourage Freer European Defence Market,” *Jane’s Defence Weekly*.

²⁰ “Defence Market: Verheugen on Strategic Independence,” (3 November 2008), *Europolitics*,

life,” a more poignant reason for this incongruity is probably damage to the proverbial “level playing field,” meaning that EU firms would be disadvantaged in the international markets where non-EU providers could freely offer sweeteners in the form of offsets. As a result, *CTO* reported that many EU prime contractors were lobbying national governments to oppose such measures when they first got wind of the Commission’s intentions, citing as an example the UK Defence Industries Council (DIC) organising a meeting with Ministry of Defence Officials to convey these preferences (Shanson, 2006: 1-2). When the MoD response was one of support for the proposed prohibition on indirect offsets, the Defence Manufacturers’ Association (DMA) of the UK, as well as British Industry Offset Group, have stated their intention to “force the MoD to re-think its stance” (Shanson, 2006: 1-2).

At the same time, the European Commission consistently presented its legislative efforts on the path to the EU Defence Procurement Directive as a push to convince “governments...to get their acts together and allow industry to broaden its options,” since a more open defence equipment market was the only means of ensuring continued competitiveness of the EU’s defence industry (Ames 2006a, 2006b). For instance, at a key stage in the path towards the Defence Procurement Directive, namely the publication of the Interpretive Communication, the Commission took to *Europolitics* to emphasise that in addition to clarifying existing EU law, the Interpretive Communication also aims to “achieve better business opportunities for European companies which are suffering from heavy competition from outside [the EU]” as well as “to encourage the abandonment of traditional monopolistic schemes in member states” (*Europolitics*, 8 December 2006). In addition, an official at the Directorate General (DG) Enterprise of the Commission took the opportunity presented by the European Parliament’s Sub-Committee on Security and Defence hearing on 17 July 2007 to float the upcoming Defence Package proposals as a way “to roll out a genuine internal market for the defence industry” (*Europolitics*, 19 July 2007). Bunch also stressed that the Commission is “looking at improvements” in security of information exchange in procurement, synergies between civil and defence markets, and access to non-EU markets (*ibid*). These subjects represented either concerns of European industry about the provisions of the proposed directive, as in the case of secure information exchange, or benefits firms expected from the legislative measure, meaning better investment in R&D partly due to improved access to external markets. Thus, media coverage accompanying the publication of the *Defence Package* in December 2007 featured interviews with Verheugen and McCreevy, Commissioners for Industry and Internal Market, respectively, who made use of this opportunity to voice their intention to “open up third markets” (*Europolitics*, 6 December 2007). In fact, the document itself remarks that the European defence industry is “effectively excluded from supplying the US market,” whilst the EU market has been welcoming to US firms.

By connecting security of information, cross civil-defence research, and access to third markets to the forthcoming proposals—even if only rhetorically at this stage—the Commission was not only signalling to defence industry that the concerns raised by firms would be addressed by the measures, but also hinting that industrial demands had been met with sympathy. All of these indicators suggest that the EU executive was

keenly aware of defence firms' concerns regarding proposed integrationist measures in the defence procurement sphere, and that it was making conciliatory noises throughout the legislative process. However, whether this was a result of industrial lobbying of Commission officials, or, conversely, the latter's attempt to win allies in its bid to extend Internal Market rules (and its own influence) into the defence industrial realm remains to be seen.

Decision-Making: The Bottom Line?

The influence of EU's defence industrial primes on the intergovernmental deliberations that led to the adoption of the Defence Procurement Directive, via several rounds of amendments and modifications, as well as the Council-Parliament negotiations over its provisions is perhaps most notably apparent in its self-attribution and the text of relevant documents emanating from the EU deliberation process. However, an examination of the finalised Directive's most significant features for industry, its treatments of offsets and potential risk to defence research and development (R&D) qualify substantially the story of unequivocal lobbying success. For instance, Rear Admiral (retd.) Rees Ward, CEO of ADS at the time, felt that the Directive in this final form was fearfully open to uneven and inconsistent implementation throughout the EU, making it "unworkable" for industry (Shanson, 2010:3). The taken-aback reaction of defence primes to the key implications of the finalised Directive suggests a reactive role to the policy process rather than resolutely occupying the driver's seat as has been claimed.

Self-Attribution

Initially, ASD president at the time Allan Cook, listed in his introduction to the Association's 2008 annual report the adoption of the Defence Procurement Directive among ADS' main achievements during that year. According to Cook, this outcome was a "reward" for "ASD's intense lobbying efforts throughout the debate on the EU 'Defence Package'" (ASD, 2008: 2). The document goes on to provide some detail of the ASD lobbying efforts. In particular, it commends its especially-created Co-Decision Working Group for the tireless effort, as well as "considerable time and energy" it has dedicated to the legislative process of the Directive, working to ensure that concerns of the industry were incorporated into the final version (ASD, 2008: 6). The annual report also asserts that the Defence Commission of the ASD was "actively engaged in the contribution and influencing of the relevant discussions among the Council and Parliament of the EU" (ASD, 2008: 9). In addition, the Association's Rotorcraft Group, which includes the prime manufacturers and largest exporters was reported to have lobbied the European Parliament during the debate of the Defence Procurement Directive with gusto, resulting in "some major industry recommendations" having been ostensibly "recognised and taken into account" by MEPs (ASD, 2008: 25). Although the report is vague regarding what precisely these concerns were, it does go on to say, rather pointedly, that, given their size and scope, the

members of the Rotorcraft group “have a strong interest in an open European internal market” (ASD, 2008: 25).

ASD has also congratulated itself on the fruitful contacts it had established with the Slovenian and French Council Presidencies throughout 2008, claiming that the French Presidency has been “particularly attentive” to the views of industry on the Defence Procurement Directive (ASD, 2008: 6). In fact, the then ASD President, and CEO of the Swedish defence firm Saab Technologies, Ake Svensson’s speech at the European Parliament in May 2008 was given “in support of this [lobbying] work.” It appears that Svensson must have visited Parliament quite often during that time, as a month later he spoke at a “mini hearing” of the EP’s Committee on the Internal Market and Consumer Protection (IMCO)—which was formally considering the proposed Directive in the co-decision procedure—on the risks and benefits of European defence market rationalisation. Although his presentation itself has not been made public, a summary of the event indicates that while Svensson underscored the importance of the proposed Defence Procurement Directive for decreasing defence market barriers within Europe, he cautioned that the Directive in its current form could have a negative impact on defence R&D and thus harm the European defence industrial base (IMCO, 2008:2).

EU Documentation

It is informative to juxtapose this self-attributed influence with the empirical record of the official documentation emanating from the process that culminated in the adoption of the Defence Procurement Directive as a core element of the EDEM. This appears permeated with the rhetoric of industrial viability and competitiveness. In particular, the meeting of the Competitiveness Council, the grouping within the Council of Ministers responsible for the Defence Procurement Directive, on 29 and 30 May 2008 opened the summary of its discussions on defence industrial matters by affirming the importance of enhancing the competitiveness of EU’s defence firms at the international level (Competitiveness Council, 2008:13). According to the Council, achieving this objective depends upon the reduction of barriers to competition and the adoption of common standards within defence markets. In concluding with the “encouragement” of member states, the Commission and the EDA to continue working together towards the realisation of “the full potential of the European defence market,” the Council held up favourable industrial positioning as the ultimate goal of such cooperation (Competitiveness Council, 2008: 14). Furthermore, in a July 2008 meeting, the Council on Economic and Financial Affairs also took up deliberations over the Directive emphasising the benefits the measure would bring to Europe’s defence firms (European Council, 2008b: 21).

In addition, a significant portion of Committee of Permanent Representatives’ (COREPER) Draft Declaration on Strengthening Capabilities, issued on 5 December 2008, is dedicated to the issue of the European Defence Technological and Industrial Base (EDTIB). It begins by citing the fragmentation of defence markets as the reason for diminished competitiveness of the EU’s defence firms, and goes on to state that rectifying this is

both a strategic and an economic necessity (COREPER, 2008:7-9). This is one of only two references to the defence and security side of this issue, and the rest of the section calls for re-structuring the EDTIB in order to spur the creation of “world-class transnational European groups” (COREPER, 2008: 8). The Defence Directive and the EDA’s Code of Conduct, according to the document, will contribute to achieving this aim, by “lessening unnecessary regulatory hindrance” and “fostering trade between the Member States” (COREPER, 2008: 9). Crucially, COREPER members insist that “lessening our dependence for key technologies on non-EU suppliers” and “improving our security of supply” is essential to developing operations capabilities (COREPER, 2008: 8). The significance of this statement lies in its echoing of the defence primes’ fears over the onslaught on their competitiveness by “non-European sources,” that is, American companies.

As far as the European Parliament is concerned, one of IMCO’s early working documents on the proposed Directive described the aim of the legislation as achieving “greater cost efficiency, thereby benefiting both national budgets and the arms industry” (European Parliament,2008: 2). The addition that “providing the armed forces with the best possible equipment” is “just as important,” appears almost to be an afterthought (European Parliament, 2008:2). Finally, in its opinion to IMCO, the EP’s Sub-Committee on Security and Defence (SEDE) welcomed the initiative of the Commission to bring about a transparent and competitive EDEM, listing its benefits to Europe’s defence industry immediately after heralding its contribution to CSDP (European Parliament, 2008b: 3).

Preference Attainment

Research & Development

It seems marked incongruous then, that when it comes to the fulfilment of industry’s objectives regarding defence procurement harmonisation, the resulting Defence Procurement Directive left industry with a “mixed feeling” (ASD, 2008: 9). Such fears were echoed by the then ASD secretary general Francois Gayet who was worried that the Directive could discourage industry from investing into R&D by removing assurances that its national government would purchase the resulting technology. At the same time, governments would have little incentive to spend on domestic research and development, if it was likely that the equipment itself would be produced in other countries.²¹ Industry’s worries over the Directive’s adverse impact on R&D may also explain ASD President’s somewhat lukewarm assessment of the Directive as a step towards a more efficient and competitive European defence industry but one which must be taken “globally” for its benefits to be appreciated (ASD, 2008: 2-3).

Research and development is absolutely essential to the growth, competitiveness, and strategic planning of the defence industry- across the EU and worldwide. R&D is the bedrock of defence technological innovation,

²¹ “Parliament Paves Way for Single EU Defence Market,” (15 January 2009), *EurActiv*.

which itself is crucial to defence firms' export performance. R&D investment is also at the core of the sombre prospects advanced by the European defence primes regarding their own future, particularly when it comes to lagging behind their American competitors. At the time of the release of the Commission's proposal for a defence directive, United States' R&D investment outstripped the combined EU spending by a ratio of six to one, and this gap has only widened since then (EDA, 2007: 3). Defence R&D requires investment on a large and increasing scale due to the growing cost and development periods of military technology. It is largely funded from national budgets, with governments typically reimbursing firms for the costs of privately financed R&D. Across the EU, R&D is often co-funded between government spending and contributions from industry (James, 2004: 2). Since defence firms will only invest their private funds when they see a reasonably certain prospect of procurement, "publicly funded R&D is the lifeblood of the defence industrial and technological base (Williams, 2008:29-30). Moreover, purchase of the developed equipment by the national government is viewed as a sort of "seal of approval" necessary for successful export (ibid).

The fear of EU primes described above is rooted in the risk that, while R&D activity is exempt from the Directive, the products that result from it, and into the development of which firms have invested, could lose to a foreign firm's wares in competition. Such a scenario would, in turn, discourage governments from investing into "indigenous" R&D, when they may just as easily purchase off-the-shelf equipment from third countries (Williams, 2008:30). As demonstrated above, industry has been cognizant of these potential dangers, so that one would expect companies to ensure that in final version of the Directive such risks were mitigated as much as possible. Nevertheless, judging by the industry's own reaction, this objective has not been achieved. Furthermore, the potentially adverse impact on R&D seems to have disappeared from the list of contentious points as the negotiations in Council and Parliament over the Directive's provisions drew to a close.²² That industry was not able to secure a favourable outcome on this crucial point casts some doubt over the extent of its influence in bringing about the Directive's approval. After all, if it not only ignores but potentially exacerbates defence firms' competitiveness woes, can one reasonably claim that they were key to the passage of legislation?

Offsets

A similarly abrupt story may be told regarding the fate of offsets. When the Commission has at last officially revealed its position on offsets, it elicited a response from member states as well as industry that ranged from puzzlement to indignation and from incredulity to shock. In particular, Neil Rutter, then legal counsel to the Global Offset and Countertrade Association (GOCA), which includes all the EU primes, described his reaction as "rather shocked, really," specifying that the Commission's view of all offsets being illegal also appears to contradict the EDA's efforts (Shanson, 2010: 3). What is more, in response to the Commission's Guidance Note on Offsets, thirteen defence and security industry associations across the EU had written a letter to the European Commission, emphasising the benefits of offsets to much of the Union's defence

²² "Defence Package: Single-Reading Agreement Taking Shape," (9 December 2008), *Europolitics*.

industry, particularly to SMEs. The groups have also appealed to the Commission to adopt a “prudent and pragmatic attitude regarding offsets” not least by allowing the EDA to drive policy in an intergovernmental manner, as this area is “closely related to national sovereignty” (Shanson, 2010b: 4). Yet, crucially, the national trade associations representing the largest EU defence firms considered here, as well as the Spanish defence association, neither signed the letter nor lent their support to the initiative. Brinley Salzmann, by that time serving as Director for Overseas Exports of the British ADS, justified his Association’s reticence by highlighting the futility of the effort (Shanson, 2010b: 4). He felt that the Commission’s position was entrenched, and therefore must be managed rather than opposed. France’s Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS) initially seemed to appear supportive, but in the end concluded that French defence industry did not benefit from offsets, while the German Deutsches Kompensations Forum (DKF) was not even asked to sign the letter, as Germany has an official policy of opposition to offsets (Shanson, 2010b: 4).

Whatever the situation regarding defence firms’ offset preferences may be, it is quite telling that industry seemed so caught off guard by the Commission’s stance on the issue. Indeed, the Guidance Note on Offsets claims to merely clarify the Directive’s stipulations, while the subject must have been raised during Council negotiations, since the provisions for sub-contracting within the Directive are designed to address offsets without naming them. Consequently, this reaction on the part of industry seems at odds with the assertions of ASD annual reports regarding its “tireless lobbying effort” during this period. If this was indeed the case, then one must wonder how it is that industry appeared blindsided by the Commission’s position on offsets. For instance, even if the primes did not sign the letter of complaint mentioned earlier, they appeared to be in a reactive mode throughout the legislative process, rather than shaping it to fit their own objectives.

Conclusion

This paper had set out to test the validity of the claim that the first elements of an institutionalised European Defence Equipment Market have materialised as a result of concerted lobbying by transnational defence firms of the EU. It was proposed that lobbying would be undertaken by national and pan-European trade associations, as well as by individual companies, that is, BAE Systems, EADS, Thales, and Finmeccanica. Post-Cold War defence market conditions—both in the EU and globally—were described to demonstrate that industry would indeed benefit from harmonisation measures, and would thus have an incentive to see their implementation. Moreover, this chapter explained the inconsistency between the close relationship between national governments and “their” defence firms and yet the resistance of member states to integrationist measures proposed by the European Commission.

From a methodological perspective, process-tracing was employed to elucidate the influence of the defence primes throughout the policy-cycle stages, beginning with agenda-setting, through to agenda-shaping, and culminating in decision-making. Thus, the paper first set out defence primes’ calls for a narrowed

Transatlantic competitiveness gap and greater market openness and harmonisation. These would become prominent features of the EDEM discussions. The discussion then progressed to industry's demands for a binding, EU-wide instrument, rather than a voluntary mechanism represented by the Code of Conduct, as well as indications of a receptiveness to these concerns from the European Commission. Through a combination of publically available statements, policy documents and "self-attribution" of influence, it was demonstrated that defence primes had consistently greeted the proposed harmonisation measures with support and approval and have repeatedly claimed the adoption of the Defence Procurement Directive as a lobbying success. In this regard, they have singled out both the European Council and its Slovenian and French Presidencies, as well as the European Parliament due to the co-decision procedure. Again, the Council of Ministers discussions seemed to favour defence firms' wishes. Finally, it is crucial to note that the language of official EU documentation emanating from the deliberation process of the Directive had been examined, focusing primarily on the Council, but also including the European Parliament and the Commission. It is notable that all documents name enhancing industrial competitiveness of the EU's defence industry as a chief aim and motivation of the proposed Defence Procurement Directive.

However, doubt was cast on the degree and effectiveness of transnational firms' lobbying activity, when a number of specific aspects of the Directive that would have been crucial to them had been examined. Firstly, even though they appear to have been aware of this danger during the negotiation stage, companies were alarmed at the risk the Directive's provisions posed to R&D investment across the EU when the legislation was approved. Given that research and development spending is a lifeline of the defence industry, and that increasing it had been a key demand companies had consistently voiced along with greater market openness, one would expect them to have mitigated such a grave risk in a Directive they ostensibly brought about. Another such aspect was the issue of offset arrangements, which the large, transnational firms were assumed to have opposed and sought to curtail with the help of the Directive. That the primes were thoroughly taken aback when the implications of the Directive's provisions for offset practice in the EU became apparent, is a second detraction from the story of lobbying success and decisive influence. Lobbying is based on consistent monitoring of the policy process, and it is difficult to make a case for it when the policy outcome is such a surprise. At this stage, then, the picture of industrial lobbying is mixed, just as industry's reaction to the finalised Defence Procurement Directive was. On the one hand, plenty of influence had been self-attributed, while the Defence Procurement Directive appears to serve the objectives of the transnational defence primes such as a binding curtailment of market-distortions and enhanced competitiveness. However, the legislation has repeatedly been called a "mixed blessing" by industry itself, while its specific implications, particularly regarding R&D investment and offsets, either pose risks for the defence firms or complicate their lives. This overall picture points to the conclusion that while they have been successful in setting the EDEM agenda and partially shaping it to suit their preferences, the EU's transnational defence firms were not able to influence the decision-making stage of the Defence Procurement Directive to meet their objectives. The reasons for this outcome are complex and in need of further examination. Nevertheless, several informed inferences may be

made. Firstly, the EU's defence primes had to contend with the agenda of the European Commission acting in its capacity as a policy "caretaker", ensuring that integrationist measures it proposed are accepted by member states. In the process, the Commission seems to have opted for a compromise excluding R&D activity from the Directive's remit to placate the twitchy member states, contrary to the interests of the defence firms. The EU executive also appeared to ride roughshod over the preferences of industry for a softer, gentler approach with regard to offsets, for example, best led by the intergovernmental European Defence Agency. Here arises the second tentative conclusion, which concerns the voluntary, intergovernmental component of EU defence market institutionalisation in the shape of the EDA's Code of Conduct on Defence Procurement. In particular, this trajectory, arising from the development of the EU's Common Security and Defence Policy (CSDP), has existed alongside the supranational, market-centred proposals of the European Commission. At first, defence industry appeared dissatisfied with the voluntary, member state-led Code of Conduct, but in the end was calling for its primacy in handling the sensitive issue of offsets. In further research, it would be illuminating to examine the interaction between the Slovenian and especially the French European Council Presidencies—credited with securing the compromises necessary for agreement—and EU transnational defence firms in securing the adoption of the Defence Procurement Directive. Specifically, one could understand if these member states indeed acted in accordance with industrial concerns, as industry leaders had claimed, or if influence flowed the other way, with national actors "managing" industrial preferences in steering agreement with the European Commission.

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