

The European Security and Defence Union

“Where does Europe go from here, President Juncker?”

For the EU 2015 could be a major turning point, but there is no time to lose: it is now or never.



SMART ENERGY

Thinking through the energy change:
smart energy becomes a reality in security and defence

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Armaments Cooperation

European armaments policy is crucial for achieving the aim of a more autonomous EU with a greater say in international political decision-making. If member states could agree on common investments to plug capability gaps and drive major programmes forward, the ambition of a strategically autonomous Europe could become a reality: but they must show vision and determination.

Without a coherent defence industrial strategy Germany risks putting its own industry out of business

German defence deserves a 21st century industrial strategy

by Dr Christina Balis and Lars Miethke, Avascent, Paris/Washington

Long before the current debate over export policy, Germany's defence industry occupied a delicate position reflecting the country's uneasy relationship with it. The € 20 billion sector is usually seen as part of the country's success as an *Industrie-nation*. Yet, unlike in other countries, it is not perceived as a core element of Germany's national security effort. The result is disjointed and contradictory policies unfit for today's global defence realities.

While the defence and security sector's combined output is outstripped by that of leading German manufacturing industries, its historical export success is undeniable. Until recently, the country ranked among the world's top five arms exporters, often outperforming France and Britain. With such economic success, combined with historical sensitivities, Germany has not felt compelled to articulate a coherent defence industrial strategy. In the absence of change, however, Germany risks putting its own industry out of business and missing an opportunity to invigorate Europe's defence debate.

Why a broader strategy is needed

As German defence industry faces a declining home market, a fragmented European market and a hyper-competitive international market, a coherent and supportive defence industrial strategy is needed more than ever. The government's recent initiative to define critical defence technologies for the future is commendable, but in itself insufficient. This is not merely a

question of whether tanks, submarines and small arms deserve to be considered alongside electronic warfare and C4ISR. Equally important is the question of how these technologies can be realistically preserved.

Germany's annual defence budget hovers at below € 33 billion (half of which covers personnel costs), with little chance of near-term increases in light of a rigid balanced-budget target. Several defence programmes are under scrutiny, while large current inventories remain confined to bases. More alarmingly, no major new programmes exist on the horizon, and future ones will almost certainly require European or international cooperation.

Against this bleak picture, it is unclear how to develop and sustain vital defence technologies. Even if a less restrictive export policy offers a short-term solution, it just risks transferring the very domestic know-how the government wants to preserve. The notion that home-grown industries can continue to thrive on a purely export-led model is misguided. Without a meaningful defence industrial strategy, the long-cherished "made in Germany" label truly risks getting replaced by "German-free" content.

Germany's *Sonderweg* in defence

Germany's unstated defence industrial strategy rests on a unique paradox: support for open-market procurement procedures often favouring foreign suppliers (similar to the UK and

contrary to France) and an almost distrustful attitude toward its own industry that denies it political support overseas (contrary to both the UK and France).

Control within the defence industry also assumes a rare German combination of family business ownership and indirect government influence (through its legal veto powers in relation to strategic corporate transactions). This combination tends to drive conservatism in decision-making. Airbus Group is the exception, being truly multinational and under partial German government control, albeit at a significantly reduced stake of 11%. This explains in part the transformation launched by CEO Tom Enders – a mix of strategic refocusing, portfolio rationalisation, acquisition of controlling interests with parallel shedding of non-core partial holdings – and its disruptive potential, setting a potential model to follow in Germany and broader Europe.

These shortcomings are not Germany's alone. Most European countries, even those with updated strategies, still reflect obsolete national models. Yet Germany could be an effective advocate for a market-leading European defence industry. Besides its current economic and political clout, Germany benefits from a neutral position between a pro-European France often mistrusted for its motives and an economically liberal UK flirting with a possible EU exit. Framing a domestic debate in the European context would be not only in Germany's interest, but also the much-needed impetus to a moribund EU defence debate.

The upcoming German White Paper on National Security – the first in nearly a decade – offers an ideal platform to articulate a



Photo: Avascent

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defence industrial vision. Moreover, the political timing seems right given the rare alignment of domestic and European debates. Germany has a unique opportunity to update its defence industrial strategy for the 21st century, but the very real question remains whether it will seize it.

► NEWS:

Angela Merkel opts for human rights – no tanks for Riyadh

(ed/hb, Brussels) While the world's great and mighty – democrats, oligarchs, dictators and monarchs – gathered in Riyadh for King Abdullah's funeral, Germany's Federal Security Council, at its 20 January meeting chaired by Angela Merkel, dealt a severe blow to the German defence industry, with as yet unforeseeable consequences, according to German press reports.

The *Bild am Sonntag* tabloid newspaper reported that the Council, whose meetings are secret, had refused certain arms ex-

ports to Saudi Arabia and postponed decisions on others due to instability in the region and the human rights situation in the country itself.

This is a deathblow for a multi-million euro contract for deliveries of Leopard II, the world's most modern tank. According to the German magazine *Der Spiegel*, Germany delivered since October 2014 about € 332 Million worth of defence equipment to Saudi Arabia.

The country is constantly being hauled over the coals for its human rights abuses.

The sentencing of blogger Raif Badawi to 1000 lashes and 10 years imprisonment seems to have been the last straw for Germany's decision-makers.

German radio reported on 4 February that the Federal Government in the person of Economic Affairs Minister Sigmar Gabriel had prepared a statement to the effect that Germany would continue delivering defence equipment intended for the protection of Saudi Arabia's borders: this would exclude large equipment like the Leopard tank.