



The European Defence Industry (EDI) at a crossroads: A SWOT analysis of prospects

Introduction

With the return of war to European soil, the current environment of existential crisis within and beyond the European Union (EU) highlights the importance for greater defence cooperation, so that the Union safeguards its core values and shared principles, and promotes its interests and priorities. Expectedly, hard power, attested by modern, competent, well-equipped and ready-to-deploy armed forces, takes the lead over soft power. Preparatory steps to this direction have already been undertaken, mainly after the launch of the European Union Global Security (EUGS) in 2016, which underlined the necessity of achieving progress in strategic autonomy, through the empowerment and further development of the European Defence Industry (EDI).

Today, in the midst of war in Ukraine, the European Union's Strategic Compass, along with the almost simultaneously issued NATO's Strategic Concept, dictate the acceleration of the ongoing processes in order to achieve robust common defence capabilities. This paper analyses the prospects of the EDI, mainly in light of the relevant political actions undertaken within the framework of the Common Security and Defence Policy (CSDP), by using the Strengths Weaknesses Opportunities and Threats (SWOT) analysis tool. Findings suggest unprecedented opportunities for the growth and the development of the large-sized European defence industries, mostly due to: (a) the increasing defence spending and initiatives led by Member States (MS), EU and NATO, (b) its internationalisation and proven records of successful collaboration globally and, (c) the emergence of new markets/niches. As far as the European small and medium-sized enterprises (SMEs) and the regional industries are concerned, their prospects appear less favourable, not only given their size and vulnerability in comparison to competitors, but also because of numerous barriers that hinder their growth, such as difficulties to the accessibility of funds, to acquire new technology, to employ specialised workforce, to participate in collaborative projects; the increasing costs for developing of defence articles; their struggle in monopolistic or oligopolistic markets; their operation largely across national borders; etc.

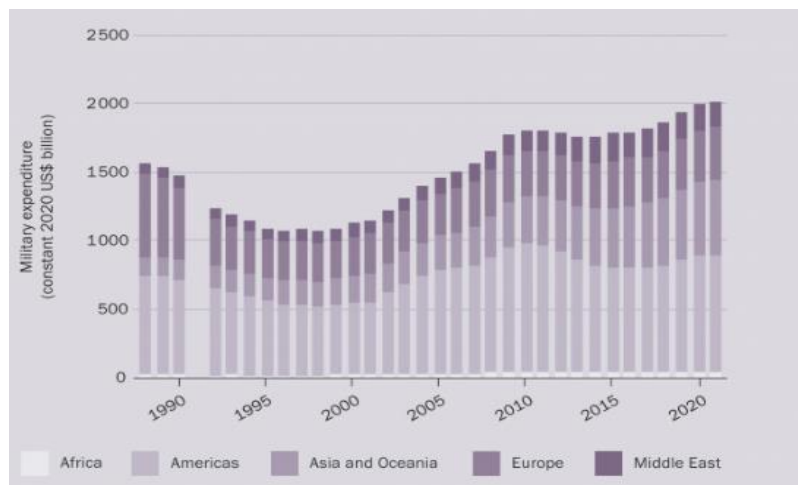
Whilst defence industrial autarky has always been the conventional wisdom for the sovereign nation-states, subscribed to very early by Adam Smith in his seminal work *The Wealth of Nations* (1776), the concept of strategic autonomy in the fields of defence and security appears lately as the "Holy Grail" (Mauro, 2018) within the EU. After the European Union Global Strategy has been approved, i.e. a strategic document that determines its priorities, vision and future goals, it has been made plain that in order to achieve "...the capacity to act on your



own when and where necessary and with partners wherever possible"(Council of the European Union, 2016), the EDI surely constitutes one of the most important enablers.

In the shadow of the war in Ukraine, the recently released Strategic Compass (March 2022) complements the EUGS, by integrating vision with action; by setting out clear and measurable targets; by identifying the necessary resources; by correlating means, ways and ends. Recent statistics derived from the Stockholm International Peace Research Institute (SIPRI, 2022) and the European Defence Agency (EDA, 2021), show that the world military spending for the year 2021 reached an all-time high of \$2.1trillion (Figure 1) and that the European defence spending¹ for the year 2020 increased for sixth consecutive time, reaching the amount of €198 billion (Figure 2). Moreover, the newer defence and security challenges arisen after the Russian invasion (physical defence and security within the continent and the surrounding neighbourhood, energy security, economic stability, supply chain security, etc.), along with the -now considered as ordinary- threats (terrorism, climate crisis, COVID-19, migration, hybrid threats and warfare, radicalization, etc.), more defence investment is required *"... in a collaborative way and not in a fragmented, national manner"*, since *"... the threats are rising and the costs of inaction – of 'non-Europe' – are clear"*².

Figure 1: World military expenditure, by region, 1988–2021



Source: SIPRI 2022.

Despite the fact that the origins of defence and security cooperation in Europe can be traced in the post-World War II era and later in the Common Foreign and Security Policy (CFSP), while the political initiative which

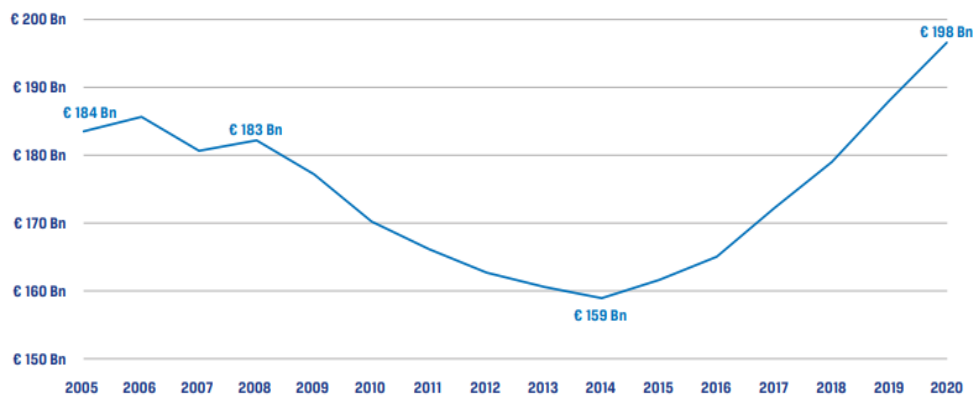
¹ For 26 Member States – Denmark excluded. Denmark, after a referendum held in 1993, had derogation or “opt-out” from EU military operations, defence cooperation, military support for EU-led efforts in conflict areas, participation in any decision or planning regarding operations. This changed after the referendum of 01 June 22, when this opt was abolished.

² Retrieved from the foreword of High Representative of the Union for Foreign Affairs and Security Policy Josep Borrell in the the European Union’s Strategic Compass.



constitutes the operational arm of the CSDP has been embedded in the Treaty on European Union (TEU) (Treaty of Maastricht) in 1992, today's European landscape is still characterised by sizeable dependence from the United States (US), fragmentation, great variation and diversity of defence systems, duplication, lack of coherence, interoperability and deployability (CARD, 2020). Notably, indigenous production remains the preferred choice, risking the EU's strategic autonomy, a fact that influences the prospects of the EDI for sustainment and further development.

Figure 2: Total Defence Expenditure (Constant 2020 Prices) in the EU



Source: EDA 2021.

Given the aforementioned, this paper contributes to the existing literature by replying to the emerging research question “what are EDI's current/future prospects”, using the SWOT analysis, a tool commonly used in management, with the intention of mainly presenting the greater picture and providing new insights, and focusing less on an exhaustive analysis of all parameters taken into account for the construction of the model.

Methodology and Limitations

The structure of the EDI comprises a few dominant companies and around 1.350 small to medium enterprises (SMEs) (Roth, 2017). Given that there is not enough data, information and reliable statistics, especially for the SMEs, the venture of analysing the its prospects becomes arduous. Moreover, any study on this topic is endogenously complex and multidimensional, since it comprises the analysis of various interrelated scientific fields, namely drawing on political science, economics, international relations and European studies, law, industrial organisation, etc.

Albeit there exists an abundant bibliography in each of these fields, the classification and composition of this information with an integrated view under a specific methodology, are missing. The use of the SWOT model determines the methodological framework to be followed and attempts to fill this gap. The researcher identifies



the internal (strengths and weaknesses) and external (opportunities and threats) factors that affect the subject under investigation. More specifically, strengths are about internal capabilities and positive factors that help an organisation achieve its objectives. Weaknesses are about internal constraints and negative factors that hinder or impede this effort. On the other hand, opportunities are external factors, the exploitation of which facilitates achieving goals, whereas threats are the negative externalities that put progress at stake.

In general, the SWOT model with its pictorial structure, enhances comprehension through simplicity in presenting a plethora of facts and findings, without entering in exhaustive detail. It is rather static given that it presents information valid at a certain point in time and it is solely used as a first step in an analytical process, or for strategic planning. It is useful to present the current situation, nevertheless it does not provide solutions or extend suggestions. Additionally, many times the boundaries between categories are blurry or overlapping. Thus, it is usual that some parameters which entail both positive and negative implications, to be simultaneously classified in opposite pairs (strengths-weaknesses, opportunities-threats).

Also, it has to be noted that the success of some national or “trans-european”³. defence industries does not match ipso facto with the current status of the EDI as a whole: the EDI also includes companies from regional countries, and not just the European top-25 largest defence exporters presented below in Figure 4 (i.e. firms from France, Germany, Italy, Spain, the Netherlands, and the Czech Republic). This may create the misleading impression for a vast array of issues: the industry’s prosperity as a total; the level of collaboration or competition among firms; their self-determination as “European” firms and, subsequently, their commitment and participation in various EU-led defence initiatives; the prosperity of SMEs, etc.

Despite all these methodological limitations and structural weaknesses, the model, through its practicality, should be assessed generously as a primary tool in every decision-making process for the development of a roadmap to accomplish a target.

The SWOT model

The following table presents a condensed format of the proposed SWOT model, which encompasses the basic parameters discussed below. At the end of the analysis (in the section of Conclusions), a more elaborate one is displayed, encompassing all facts, findings and intermediate conclusions.

The justification behind this “duality” lies to the complexity of the subject under research, considering the aforementioned limitations: a plentitude of factors affecting the EDI, the interrelations and interactions among

³ Term used to describe usually large companies operating and having facilities in more than one, European countries.



them, the possible co-existence of both positive and negative impacts in many variables, etc. The integration of this information in a synoptic way, will allow the familiarization with the topic and the comprehension of fundamentals. Eventually, it facilitates the contemplation of what has been done so far and the formulation of the greater picture concerning the current status of the EDI. On the other hand, the extended format provides more details, in a manageable and conclusive way sorting advantages and disadvantages, challenges and opportunities, as well as factors of risk and uncertainty.

Table 1: The “condensed” SWOT analysis of the prospects of the EDI

<u>Strengths</u>	<u>Weaknesses</u>	
<ul style="list-style-type: none"> • Stability and prosperity • Proven records of cooperation • Dual-use markets and new markets/niches 	<ul style="list-style-type: none"> • Structure and limitations of the defence industry • Endogenous characteristics of the EDI • Costs for the development of new defence products and weapons systems 	Internal Factors
<u>Opportunities</u>	<u>Threats</u>	
<ul style="list-style-type: none"> • EU’s strong political will – ambitious plan of action • Direct defence funding and initiatives by the EU and by NATO • Emerging markets • Global trend of armaments cooperation 	<ul style="list-style-type: none"> • The “ongoing” European defence integration • Uncertain global financial environment • New Order in international relations • The right of self-defence and its implications • Economic patriotism 	External Factors
Positive	Negative	

A. Strengths

1. Stability and prosperity:

In Hobbes’s *Leviathan* (1651), the state, in the form of the biblical sea serpent, possessing the monopoly of legitimate force and sovereignty assumes the responsibility to protect its citizens from internal (security) and external threats (defence). Relevantly, Smith’s *Wealth of Nations* (1776) endorses defence and security as fundamental presuppositions for the existence and survival of a nation and takes a further by proposing taxation



and state intervention to develop national industry. Apparently, within these views, the provision of the public good of defence means that governments should finance the defence industry, being the sole or principal client.

This fact at least guarantees the continuance of the defence industry, and in many cases, its development and prosperity. As it has been already shown in Figure 2, European MS spent in 2020 the amount of €198 billion for defence, the highest value recorded from 2005.

Figure 3 shows, at no surprise, that US firms remain the largest and predominant exporters of major arms globally (39%), with great difference from the second Russian firms (19%). Adding the percentages for firms of EU MS, found in this “TOP-25 defence exporters” table (i.e. 11% for France, 4.5% Germany, 3.1% for Italy, 2.5% for Spain, 1.9% for the Netherlands and 0.2% for the Czech Republic), the total of 23.2% indicates at least the potential, the dynamics and the internationalisation of the EDI.

Figure 3: The 25 largest exporters of major arms and their main recipients, 2017–21

Exporter	Share of global arms exports (%)		Per cent change from 2012–16 to 2017–21 ^a	Main recipients (share of exporter's total exports, %), 2017–21					
	2017–21	2012–16		1st	2nd	3rd			
1 United States	39	32	14	Saudi Arabia	(23)	Australia	(9.4)	South Korea	(6.8)
2 Russia	19	24	-26	India	(28)	China	(21)	Egypt	(13)
3 France	11	6.4	59	India	(29)	Qatar	(16)	Egypt	(11)
4 China	4.6	6.4	-31	Pakistan	(47)	Bangladesh	(16)	Thailand	(5.0)
5 Germany	4.5	5.4	-19	South Korea	(25)	Egypt	(14)	USA	(6.1)
6 Italy	3.1	2.5	16	Egypt	(28)	Turkey	(15)	Qatar	(9.0)
7 United Kingdom	2.9	4.7	-41	Oman	(19)	Saudi Arabia	(19)	USA	(19)
8 South Korea	2.8	1.0	177	Philippines	(16)	Indonesia	(14)	UK	(14)
9 Spain	2.5	2.2	10	Australia	(51)	Turkey	(13)	Belgium	(8.6)
10 Israel	2.4	2.5	-5.6	India	(37)	Azerbaijan	(13)	Viet Nam	(11)
11 Netherlands	1.9	2.0	-12	Indonesia	(18)	USA	(16)	Mexico	(10)
12 Turkey	0.9	0.7	31	Turkmenistan	(16)	Oman	(16)	Qatar	(14)
13 Sweden	0.8	1.2	-35	Pakistan	(24)	USA	(24)	Brazil	(15)
14 Ukraine	0.7	2.5	-72	China	(39)	Thailand	(15)	Russia ^b	(13)
15 Switzerland	0.7	1.0	-35	Australia	(25)	Denmark	(12)	France	(8.7)
16 Australia	0.6	0.3	98	Canada	(33)	Chile	(29)	USA	(18)
17 Canada	0.5	0.8	-41	Saudi Arabia	(47)	UAE	(22)	Australia	(6.8)
18 UAE	0.4	0.3	17	Egypt	(31)	Jordan	(24)	Algeria	(15)
19 South Africa	0.3	0.3	-5.8	UAE	(26)	USA	(21)	India	(12)
20 Belarus	0.3	0.5	-42	Serbia	(34)	Viet Nam	(25)	Uganda	(14)
21 Brazil	0.3	0.2	48	France	(23)	Nigeria	(13)	Chile	(11)
22 Norway	0.3	0.6	-57	Oman	(27)	USA	(21)	Lithuania	(14)
23 India	0.2	0.1	119	Myanmar	(50)	Sri Lanka	(25)	Armenia	(11)
24 Czechia	0.2	0.3	-36	USA	(28)	Ukraine	(26)	Uganda	(13)
25 Jordan	0.2	0.1	5.0	USA	(40)	Egypt	(36)	Armenia	(10)

Figure 4: EU's Top Defence Companies by revenue for 2020 (in US \$ billion)

Company	Rank in Top-100 SIPRI list	Arms Sales (2020)	Country
Airbus	11	11,99	Trans-European
Leonardo	13	11,16	Italy

Source: SIPRI 2022.



Thales	14	9,05	France
Safran	25	4,51	France
Rheinmetall	27	4,24	Germany
MBDA	30	4,05	Trans-European
Naval Group	31	3,75	France
Dassault Aviation Group	32	3,72	France
Fincantieri	47	2,66	Italy
CEA	48	2,52	France
ThyssenKrupp	55	1,99	Germany
PGZ	68	1,49	Poland
Krauss-Maffei Wegmann	70	1,41	Germany
Hensoldt	78	1,27	Germany
Nexter	83	1,19	France
Navantia	84	1,18	Spain

Source: SIPRI 2021.

European defence ecosystem is dominated by the firms shown in Figure 4. As expected, at this threshold of sales, extroversion and internationalisation rules the basic strategy: everyone may collaborate/cooperate and enter in agreements with anyone. And this is a fact that may lead to misinterpretations, inasmuch as the level of collaboration or competition among them, their self-determination as “European” companies, etc. These statistics provide preliminary useful information, yet they cannot lead to certain or reliable conclusions apropos the prospects of the EDI.

2. Proven records of defence cooperation:

The most distinctive contemporary case of cross-national defence collaboration concerns the F-35 5th generation fighter jet. From the EU, Italy, the Netherlands and Denmark partner with the US, the United Kingdom (UK), Australia, Norway and Canada for this sophisticated and state-of-the-art weapons platform, with the American Lockheed Martin serving as the prime contractor and systems integrator. The rationale for this complex joint venture may lie with the enormous cost for research and development (R&D), production, support, and maintenance, which are intrinsic to complex weapon systems: unless a sales threshold is reached, there is no incentive to produce. Furthermore, achieving economies of scale and of scope will lead to greater profitability and market share for all participants.

As far as the first recorded defence industrial cooperation between European countries is concerned, it dates back in the 1950's, when France and Germany participated in the construction of the maritime patrol aircraft



Brequet Atlantique (Jones, 2018). Jones additionally documents that in the 1960's France and Great Britain collaborated on the Jaguar fighter aircraft and the Gazelle, Puma and Lynx helicopters; in the 1970's Great Britain, West Germany and Italy work together on the Tornado fighter aircraft; in the 1990's Spain is added to the consortium for the Typhoon fighter aircraft (a.k.a. the Eurofighter); in the 2000's France and Germany team up for developing the Tiger helicopter (a.k.a. the Eurocopter); and finally in the same decade France, Germany, Italy and the Netherlands join their efforts for the NH-90 helicopter. As far as the Navy is concerned, Kluth (2018) marks that of the 52 Western European frigates and destroyers designed after the end of the Cold War, 48 involved extensive transnational collaboration. Profoundly, there are many more cases of cooperation, either for the Army or at a lower threshold or concerning subparts and subsystems of major defence equipment, that confirm a rising norm of defence partnerships in place of the autonomy assumption.

In the framework of the European integration, introduced by the Lisbon Treaty in the European Union (TEU, article 42.6 and Protocol 10), and launched after the Council Decision 201/2315 of 11 December 2017, the initiative of the Permanent Structured Cooperation (PESCO, 2021) establishes a new format of defence collaboration between the 25 participating MS⁴. Most importantly, the national defence industries lie under the auspices of their respective governments that act as facilitators and sponsors for each European partnership. Officially, the participation in any project is voluntary, but contributors undertake strict binding commitments. Moreover, every project must be approved by the Council of the EU, the latter maintaining overall policy direction and decision-making authority, the control and the overseeing of the defence capabilities to be developed in relation to the existing strategic capability gaps. Upon approval, many projects become eligible for funding from the EU, along with national contributions. Until now, 4 waves of 60 ongoing projects (and 1 case has been closed) have been approved, covering the full spectrum of defence activities in the following categories: "training", "land, formations, systems", "maritime", "air, systems", "enabling, joint", "CYBER, C4ISR" and "space" (Karamanis, 2022). Further analysis is provided under the Opportunities section, along with other pertinent endeavors.

Conclusively, defence collaboration is not a new reality in the European continent. As far as the EU is concerned, in the context of the "always ongoing" or "dynamically evolving" defence integration, it has undertaken many initiatives not only to facilitate collaboration, but most importantly, to develop joint defence capabilities to autonomously face emerging threats and risks. This environment may be seen as the necessary first step towards greater cooperation among MS and their industries. On the other hand, as discussed in the section of Weaknesses,

⁴ Malta and Denmark have decided not to participate. Nevertheless, Denmark has changed its initial decision and is about to join the CSDP and EU military operations as explained in Note no 6. It also needs to be mentioned that Denmark has joined the F-35 Joint Strike Fighter program very early in 2001.



economic patriotism in the defence industry, that is, the preferential treatment of national firms by governments, will usually hinder collective attempts.

3. Dual-use markets and new markets/niches:

According to Hitch and McKean (1986), economy, technology and strategy cannot be viewed separately since they constitute *“interdependent elements of the same problem”*. This means that *“strategies are ways of using budgets or resources to achieve military objectives. Technology defines the possible strategies ... The economic problem is to choose that strategy which is most efficient ... or economical”*. In this difficult equation, the EU's vision for a solid defence technological and industrial base which serves the goal (end) of strategic autonomy, necessitates more active mobilisation from the MS and substantial resources (means) allocated by them, along with univocal concern for SMEs in order to promote fair and balanced development of the EDI and greater involvement of regional industries.

The end of the Cold War led to significantly decreased defence government spending, a fact which eventually necessitated a drastic reform of the defence acquisition strategy: from the exclusiveness of costly defence-specific products and services to the exploitation of opportunities for competitive dual-use ones, wherever possible. This would not happen unless, at the same time, the rapid technological advancements provided compatible, affordable, and commercial alternatives to defence planners. The US, setting the pace globally as the pioneers in this field, launched the relative campaign in 1995 by analysing in-depth the advantages of this new strategy (i.e., cost reduction, quality, cycle time, efficiencies, performance, etc.) given the fiscal constraints (limited resources and budget cuts) and providing policy direction for its implementation (Office of the Under Secretary of Defense for Acquisition and Technology, 1995; National Economic Council, 1995).

The insertion of commercial capabilities into military systems and vice-versa creates new markets and, subsequently, opportunities for new entrants originating from the civilian sector in the defence industry. Most western countries, NATO and the EU continue to steadily rely upon this strategy, by increasing their interrelation with commercial firms through various projects. Indicatively NATO, as the prime, traditional collective defence and security provider, having recognised the necessity and expedience to retain and secure its technological edge, has increased investment in dual-use technologies, pursued closer cooperation with innovative companies and, most importantly, prioritised the integration of Emerging Disruptive Technologies (EDTs) in its ecosystem, with focus on the areas of data, artificial intelligence, autonomy, quantum technologies, space technologies, hypersonics, biotechnology and human enhancement, novel materials and manufacturing (NATO, 2022b).

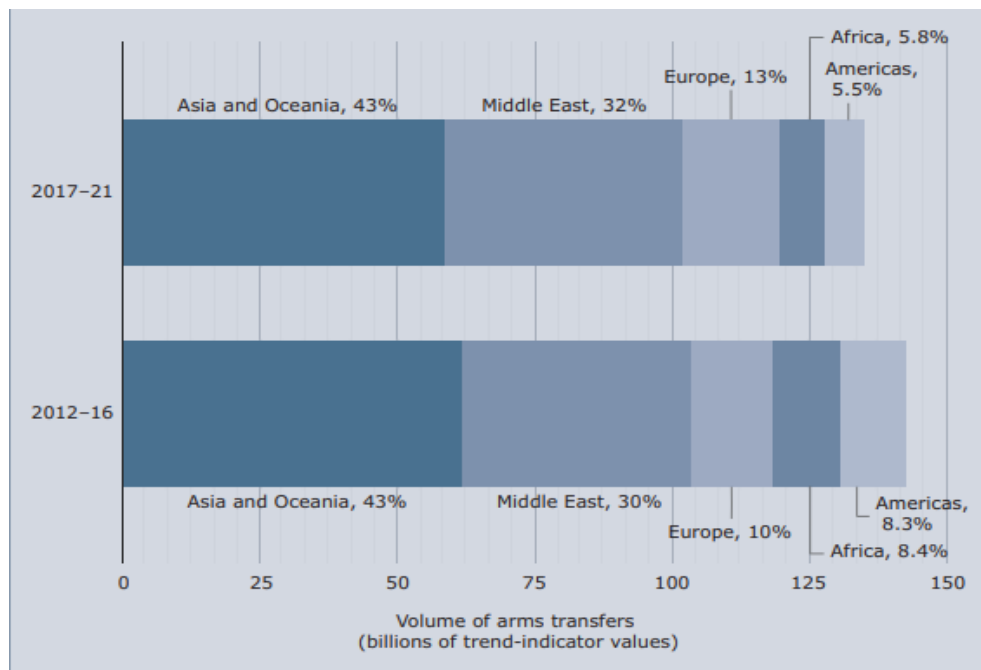


Likewise, the concept and context of EU's "common defence and security" is constantly revised so as to encompass new domains like cyber and outer space, border management and control, first responders to natural disasters, the confrontation of dispersing fake news, the security of communications, etc. Ostensively, considering that defence accounts for only a fraction of demand for all these domains whereas the civilian customers dominate and drive the markets, the civilian – military industrial nexus will be further bolstered.

Additionally, as defence budgets rise globally due to demand for new weapon systems, the maintenance market will grow correspondingly. And, understandably, it will be more preferable for a country to maintain its own defence systems domestically than to rely on others, thus to invest in a national industrial base no matter of the origin of the weapon systems used.

Also, as new conflicts and tensions around the globe will continue to emerge and others to evolve dynamically, new customers appear. As already shown in Figure 3 and Figure 5 below and studied by Wezeman et al. (2022) on behalf of SIPRI, India, Saudi Arabia, Egypt, Australia and China, together account for 38% of total global arms imports in 2017–21; and at the regional level, the respective percentages give first place to Asia and Oceania (43%), followed by the Middle East (32%).

Figure 5: The importers of major arms by region, 2017–21 and 2012–2016



Source: SIPRI 2022.



Many of these non-EU countries and others not explicitly mentioned above, or countries which have accepted or assumed the role of the peripheral geopolitical power, will eventually direct their defence budgets not only towards their national priorities, being constrained by their limited fiscal capabilities. Obviously, not every state can afford to acquire state-of-the-art defence articles or is considered eligible to do so, a fact that can be exploited by firms which either create less sophisticated or less expensive weapon systems (for example every kind of land, sea surface, undersea and aerial unmanned vehicles, anti-tank weapons, portable weapons, etc.), or others that have the capabilities to maintain or upgrade obsolete arsenal. Customers' diversification of needs allows defence industries to customize their products accordingly.

Conclusively, the dynamically evolving defence global landscape calls for the involvement of many actors, creating opportunities for all defence industries, the EDI included, independently of characteristics like size, brand name, seniority, origin, wealth, etc. Dual-use technologies provide these industries with an extra opportunity for sustainment and further development.

B. Weaknesses

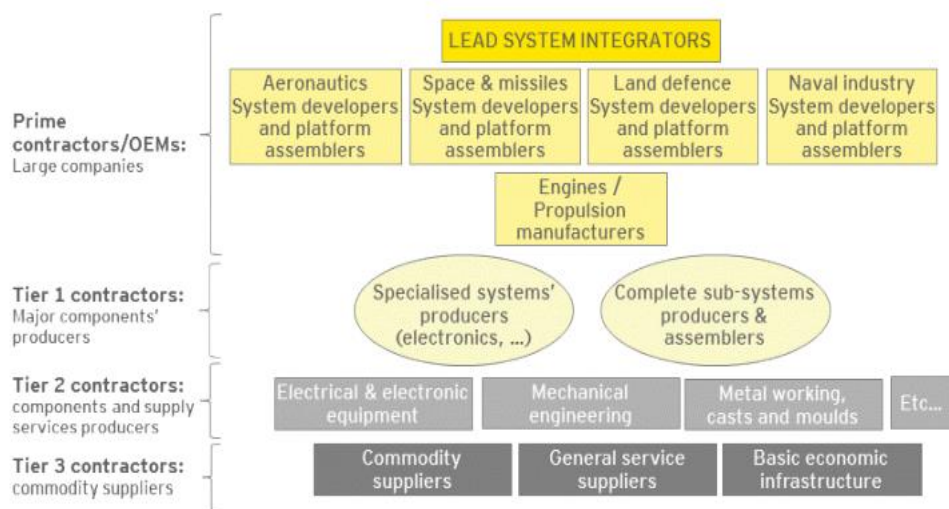
1. Structure and limitations of the defence industry:

Mason's Structure – Conduct – Performance (SCP) paradigm (1939; 1949) revolutionised the theory of industrial organisation by introducing structure as the key factor affecting the success of a firm: its profitability (performance) depends on the behaviour (conduct) of customers and sellers, which in turn depends on the structure of the market. The structure of the market itself depends on technology and demand. From its conception back in 1939, the model has been criticised, revised and reconsidered, still constitutes the precursor of the well-recognised Porter's Five Forces Model, and for reasons of proportionality implies the following: industry's structure is affected by a number of factors, such as the number of competitors, the heterogeneity/homogeneity of the product, the number of customers, etc.; conduct is determined by pricing policies and strategies, product diversification, the diversification of customers' needs, market shares, etc.; performance can be measured by profitability, sales, efficiency of products and distribution, etc.

The defence market has established globally and preserves consistently a strict tiered structure, as presented in Figure 6, that solidifies the dominance of certain leading actors and facilitates their prospects for greater market share, whereas SMEs either assume the role of the subcontractor (Bitzinger 2009; Bitzinger 2003), or focus on less sophisticated weapon systems, on pioneering alternatives (as start-ups) or on secondary markets (equipment, garments, maintenance, etc.). More specifically, the Original Equipment Manufacturers (OEMs), i.e.

companies like Lockheed Martin, Boeing, Raytheon, Airbus, etc., endowed with skilful and experienced workforce, advanced equipment and know – how, hold the role of the prime contractor in defence contracts, usually negotiating directly with governments, along with the role of systems integrators in the acquisition life-cycle. Tier 1 sub-contractors are, in most cases, highly specialised large companies that manufacture major sub-systems, sub-assemblies and components, such as avionics, electronic warfare systems, radars, certain structural parts etc., and receive parts and services from Tier-2 suppliers and so on. For example, according to the official webpage of Lockheed Martin, the F-35 Program sustains “a global supply chain of more than 1,900 companies based in the United States and in every nation acquiring the F-35”.

Figure 6: Defence supply chain structure



Source: BIPE.

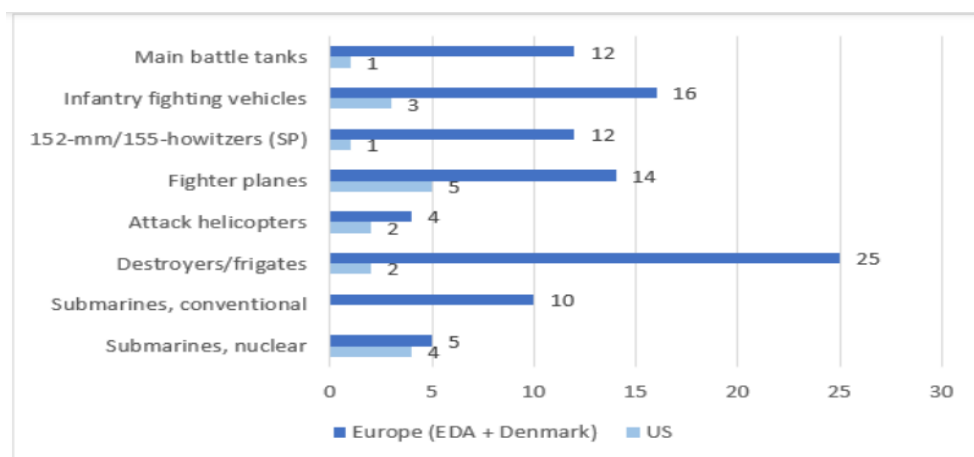
Especially for European SMEs, on the one hand, the EU defence procurement legal framework incorporates an enormous amount of consecutive steps (including competition clauses, juridical protection, administrative bureaucracy and involvement of many bodies, etc.), which, although indispensable for the balanced implementation of the contracting activity, rather deter their participation because of the high administrative cost. On the other hand, when SMEs try to mobilise across borders, they are confronted with nation-centric and preferential policies followed by many countries (for example China, India, Russia, US, etc.), as explained in the section of Threats.

To sum up, the current defence market structure favours the prosperity of traditional key players, sets barriers which obstruct new entrants and, eventually, it perpetuates monopolies or imperfect competition.

2. Endogenous characteristics of the EDI:

The European defence landscape remains fragmented, partially due to the great variety of weapon systems possessed by the EU MS, as a reflection of the fact that security and defence remain areas of shared competence between the EU and its MS. Countries with a developed defence industry (i.e. France, Italy, Spain, Germany and the Netherlands), cover their defence needs within national lines and limit to the greatest possible extent their dependence from external sources. On the other hand, the countries of the Central-Eastern Europe which formerly belonged in the Warsaw Pact (Poland and Romania), as attested indicatively by Radnóti (2018), are greatly dependent from the US, as are other traditional operators/customers of American defence products (for example Greece, the Netherlands, Belgium and Portugal which have been loyal users of the “best seller” F-16 fighter jets for decades). Consequently, only a minor part of European defence spending (shown in Figure 2) is allocated to the EDI. According to Wezeman et al. (2022), Europe accounts for 18% of total US arms exports while the US account for 54% of the region’s arms imports. These numbers are expected to rise in the future to the benefit of the US defence industry, mainly due to the rise of demand for the F-35 fighter jets and, in general, as a consequence of the Russian aggression creating emerging needs for many countries, mostly the neighbouring ones, to update their arsenals, and due to the US unnegotiable foreign affairs doctrine to increase its footprint in this area.

Figure 7: The fragmentation of the European defence landscape in comparison with the US



Source: FOI Memo 7730: Update of MSC Findings, 2021



Figure 7 presents valuable data about the variety of weapon systems in the EU and in the US. The data reflect the EU's restricted joint military capabilities, the lack of coherence in many aspects, the low levels of interoperability and of deployability, including logistics and the supply chains, the different levels of modernisation of the equipment, the duplication of resources and of effort, reduced economies of scale, etc., all of which characterise in general the EDI (CARD, 2020).

The defragmentation of the EDI constitutes a key overarching priority in the framework of strategic autonomy and in the context of developing a reliable and coherent full spectrum of joint defence capabilities. Many of the initiatives undertaken by the EU in this direction are presented in the section of Opportunities.

3. Costs for the development of new defence products and weapons systems:

Augustine's "prophecy" from back in 1986 that *"in the year 2054, the entire [US] defense budget will purchase just one aircraft. This aircraft will have to be shared by the Air Force and Navy 3-1/2 days each per week except for leap year, when it will be made available to the Marines for the extra day"* (Augustine, 1986), describes eloquently the high costs pertaining the acquisition and maintenance of technological supremacy in defence.

Growing costs for the development of cutting-edge defence products and weapons systems related to the development, possession and use of privileged or state-of-the-art technology; the need for huge R&D funding and heavy capital investment; the existence of property, intellectual and proprietary rights and patents; the quest for rare resources and for raw materials; the restricted number of key suppliers; the capital and labour intensity; the necessity of heavy loaning and of extensive financing; the excessive administrative expenditures for cumbersome and lengthy bidding processes; the difficulties for the administration and management of contracts in prolonged timelines; etc., constitute endogenous characteristics of the defence industry which eventually block or deter new entrants and the reduce the openness of the market.

All these cost-related factors, combined with the declining defence budgets after the end of the Cold War, historically formulated the current structure of the western defence industry, largely as the result of corporate alliances, mergers and acquisitions (M&A), either intentional or sometimes aggressive, starting in the US when the "Last Supper"⁵ was served (Augustine, 2006; Tirpak, 1998), and after the passage of a decade in Europe (Guay, 2005). The "peace dividend" dictated the shrinking of defence budgets, forcing the companies to examine choices for their survival: ally, merge with or acquire ex-competitors to achieve economies of scale and

⁵ During this infamous 1993 Pentagon dinner hosted by the then-Secretary of Defence Aspin and his Deputy Perry for the chiefs of the nation's top defence contractors, there were made announcements for severe defence cuts and presented the results of a DOD study, which apparently called for immediate M&A.



scope and reduce cost, or be acquired to the highest bidder. Surely, laws on M&A⁶ generally prohibit agreements that restrict competition, and the abuse of market power of dominant companies over weaker ones. Still, the market functions with its own rules, which do not always coincide with laws and legislators' intentions. As an example, according to the latest DoD report (Office of the Under Secretary of Defense for Acquisition and Sustainment, 2022), in the US there are only 3 tactical missile suppliers (declining from 13 in the past), only 3 fixed-wing aircraft suppliers (declining from 8), 4 satellite suppliers (from 8 in the past) and 90% of missiles come from 3 vendors.

In addition to the aforementioned, modern industries have to deal with many kinds of indirect or hidden cost that have emerged lately: measures to comply with stricter environmental legislation, higher administrative costs to deal with the procurement legislation, marketing and lobbying costs to preserve or increase market share, etc.

To conclude, the cost for developing defence articles, especially those which incorporate advanced technology, constitute another factor that preserves the status quo, leaving very few opportunities for new players and SMEs.

C. Opportunities

1. EU's strong political will – ambitious plan of action:

Although the origins of the common security and defence policy in Europe can be tracked in the post-WWII era⁷, the EU officially considers the Treaty of Maastricht of 1992, as the turning point of its present defence architecture. Presumably, the creation of the Common Foreign and Security Policy (CFSP) was delayed because of the priority initially given to the economic integration (the creation and the enlargement of the common market, the use of a common currency, etc.), the lengthy procedures to welcome new member states, the necessary time needed to establish internal processes, procedures and regulations following strenuous political negotiations and disagreements.

Since then, the Treaty of Lisbon (2007) accelerated defence integration, whereas in 2016 the EU set up its updated defence strategy by launching the EUGS, which replaced the European Security Strategy (ESS) of 2003. The new strategy, inter alia, redefines Europe as a global actor and security provider; emphasizes its focus mainly

⁶ For example, a series of US antitrust laws which begun in 1890 with the Sherman Act, or respective EU policies developed from Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU), etc.

⁷ Beginning with the US "Marshall plan" and the Franco-British Treaty of Dunkirk of 1947, later with the Brussels Treaty of 1948, the North Atlantic Treaty of 1949, the Treaty of Paris of 1951 which established the European Coal and Steel Community created, the Treaty of Rome of 1957 which established the European Economic Community and the European Atomic Energy Community established, etc.



on the European continent, its neighborhood and targeted areas; determines a wider range of security threats and risks (including migration, climate change, energy insecurity, etc.) and pays equal attention *“from vision to action”* by introducing the concept of strategic autonomy at the service of hard power, and underlining the importance for a solid, innovative and competitive EDI. The recently issued Strategic Compass (of March 2022) complements the EUGS by setting a clear course of action for MS to develop common defence capabilities.

In conclusion, after more than seven decades from the foundation laid for the development of a common security and defence policy on European soil, the EU has now established strategic autonomy as a key ambition for its sustainment and growth. The war in the Ukraine served as a catalyst for EU officials to elaborate more on this concept, by transforming the initial “wish-phrase” to a clear target. Therefore, the EDI has been assigned the role of the enabler of Europe’s autonomy of decision and action.

2. Direct defence funding and initiatives by the EU and by NATO:

Apart from stable funding derived directly from national budgets, the EU as a distinct entity, funds steadily and periodically the EDI throughout various projects. The chief role of the facilitator, supervisor and coordinator of all four current cooperation tools [i.e. the Coordinated Annual Review on Defence (CARD), the Permanent Structured Cooperation (PESCO), the Capability Development Plan (CDP) and the European Defence Fund (EDF)] has been assigned to the European Defence Agency (EDA), which was established in 2004 *“to support... [the] effort to improve European defence capabilities in the field of crisis management and to sustain the European Security and Defence Policy as it stands now and develops in the future”*⁸. In this context the EDF, the key funding mechanism, has been financed for years 2021-2027 with the amount of €8 billion (€5.3 billion for collaborative capability development projects and €2.7 for collaborative defence research) *“... to support collaborative defence research and development, and to foster an innovative and competitive defence industrial base”* and *“... promote cooperation among companies and research actors of all sizes and geographic origin in the Union...”* (European Commission, 2021).

Additionally, with a view to tackling the legal limitation of funding activities with military or defence implications via the EU budget, the European Peace Facility (EPF) was established in 2021, as an off-EU budget tool for financing military operations of the Union and assistance measures to third countries, with an overall budget of €5.7 billion for the reference period 2021-27, according to the Council Decision (CFSP) 2021/509. Currently, a

⁸ Article 2 of the Joint Action 2004/551/CFCP of 12 July 2004 on the establishment of the European Defence Agency.



topping-up of this ceiling is being reviewed by the Council of the EU, as its support to the Ukraine via the EPF risks the sustainability of the instrument.

However, national contributions of MS towards European collaborative projects for 2020 amounted only to €4.1 billion out of a total national defence spending of €198 billion, which corresponds to 2,07% and forms the third lowest value recorded by EDA since 2005 (EDA, 2021). This fact creates a question regarding the willingness of MS to deepen their cooperation within the EU, replacing to a greater extent their quasi-autonomous procurement activity in the fields of defence and security.

On the other hand, 22 EU MS are also members of NATO⁹, an organization of now 31 member states which share common values and face similar threats and risks with the EU. While the mutually agreed upon - yet not legally binding commitment - percentage of 2% of Gross Domestic Product for defence spending continues to fall, since only 8 members (5 from the EU: Greece, Poland, Croatia, Estonia and Latvia) hit the target for 2021 according to estimates (NATO, 2022a), the 2022 NATO Strategic Concept calls for forging deeper cooperation relations, through greater national funding, in order to fulfill its three core tasks: deterrence and defence, crisis prevention and management, and cooperative security.

To summarise, the EU will continue to support the EDI, by increasing the amounts directed towards collaborative projects, as dictated by the EU Strategic Compass. But it is crucial to ponder whether the MS continue being reluctant to co-finance these projects. On the same line of thought, NATO is expected to put more pressure on its members to increase defence spending to accomplish its mission, a fact with indirect positive effects to the EDI.

3. Emerging markets:

It has been already analysed in the section of Strengths and shown in Figures 3 and 5 above, that as defence budgets rise globally due to increased demand for weapon systems, new markets will inevitably emerge.

Likewise, the concept and context of “common defence and security” encompasses new domains like cyber and outer space. The EU has an explicit Space Policy, which aims to strengthen existing European space assets and services and to confront hybrid threats like cyber-attacks, proliferation of fake news, etc. To support this mission, the EU plans to invest for years 2021–2027 the amount of €14,69 billion and encourages the participation of start-ups and SMEs in this initiative. Many space applications may be dual - use: developed initially for civilian

⁹ Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Finland.



purposes and then used in defence, and vice versa (like the internet, the encryption, the GPS, meteorological data, communications, etc.)

To conclude, the dynamically evolving defence landscape calls for the involvement of many actors, creating opportunities for all defence industries, the EDI included.

4. Global trend of armaments cooperation:

The choice of autarky in defence which dominated as a deliberate strategy from the creation of the modern nation-states until the first decades after the end of the WWII, as explained in the section of Strengths, is still on the table. However, it seems to be relatively weakened and in a plethora of cases out of sync with the current defence reality. According to Moravcsik (1990 and 1991), firms produce more units than needed in their internal (national) market in order to amortize their enormous R&D investment and other expenses. This leads to the quest for new markets. Furthermore, he denotes that collaborative projects are not significantly less efficient than single country production. Other scholars contest this view (Hartley, 1990; DeVore, 1991) and highlight the existence of higher transaction costs in joint ventures. In any case, governments in the western democratic world institutionally assume total responsibility to protect their citizens internally and externally as expressed by their constitutions. For their armament decisions, besides the suggestions of officials (both technocrats and bureaucrats) and pressure from the industry (lobbying), the decision processes also include factors like bargaining power, national strategy, geopolitics and geostrategy, participation in various alliances (political and military), trade-offs, the development model they prefer, fiscal constraints, etc. These features are weighted accordingly and provide the rationale for endogenous domestic production or for transnational collaboration.

Apparently, in today's complex reality the concept of defence collaboration has become far more welcome than in the previous decades, offering a new range of opportunities to the EDI.

D. Threats

1. The "ongoing" European defence integration:

At the Paris Peace Conference of 1849, Victor Hugo presented his vision for the *"United States of Europe"*. During his speech, held at the University of Zurich right after the end of WWII (1946), Winston Churchill repeated the call *"to build a kind of United States of Europe"*. Several decades later, the most important accomplishments of the European integration comprise the Schengen Agreement (of 1985) which abolished national borders among



member countries, and the Maastricht Treaty (of 1992) which established the economic and monetary union. The abandonment of the idea for a single European constitution by creating a supranational law order, after the Treaty of Rome of 2004 was never ratified by all MS¹⁰, hampered the European integration process since the core state functions (defence included), eventually remained exclusively to the sovereign nations (MS). Despite that, the Lisbon Treaty on European Union (2007) established the “mutual defence and solidarity clauses” (Articles 42.7 and 222 of TEU), nevertheless defence will always be *“the first duty of the sovereign, that of protecting the society from the violence and invasion of other independent societies”* as Adam Smith subscribed in *The Wealth of Nations* (Smith, 1776).

At the same time, the “Iron Triangle” (Adams, 1991; Congressional Quarterly Weekly Report, 1956) inherent in the defence landscape¹¹, which describes the interrelations developed between various stakeholders of the political – military – industrial complex, overburdens the decision-making processes at both national and EU level. It becomes understandable how difficult it is to reach unanimous decisions within the EU, considering the complexity of having 26 MS.

Obviously, despite EU’s strong political will, as proven by numerous past and current initiatives in the fields of defence and security, defence integration remains almost a vision with the MS bearing the major part of responsibility. Hence, the EDI reflects a sum of individual industries and not as a homogenous whole.

2. Uncertain global financial environment:

As the global financial environment deteriorates (IMF, 2022 a and b) partially due to the continuing consequences of the pandemic COVID-19 and the war in the Ukraine, the financial uncertainty and instability driven by the rise of prices and the scarcity of raw materials and energy, the severe implications in the supply chain, the energy insecurity etc., diminish the profit margin for industries, slow-down economic growth and cumber access to loaning and financing. Even though defence budgets from nations, EU and NATO (i.e. the major portion of the aggregate demand) are expected to rise in the upcoming years, as explained in the sections of Strengths and Opportunities, cost-driven inflation will endanger armaments production (fewer defence articles for the same

¹⁰ The process of ratification stopped after the Treaty had been rejected by the French and the Dutch during relative referenda held in 2005.

¹¹ Addressed firstly by the US President Dwight Eisenhower (in his Farewell Address of 1961) to describe the close relationship developed in the political – military – industrial complex, including common interests, informal negotiations, coordination, and dealings among various individuals with key-roles in the government or the department of defence or the military hierarchy, with formal or informal representatives from defence industries, various interest groups, lobbies, stakeholders etc.



price) from the defence industries, which may in turn result in decreased demand, a phenomenon known as inflationary spiral.

In addition, the existing literature provides mixed views regarding the existence of a positive relationship between defence expenditure and economic growth (Topcu & Aras, 2015). Such a relationship would provide decision-makers a compelling argument against the persistent call of public opinion for more social expenses, in reply to the dilemma “butter or canons”.

Increased military spending will not necessarily lead to further development and prosperity of the defence industries (EDI included), especially in a hostile financial environment.

3. New Order in international relations:

According to Waltz (2010), the concept of a superpower comprises a nation with “*size of population and territory, resource endowment, economic capability, military strength, political stability and competence*”. Right after the end of WWII, two opposite powers, the US and the Union of Soviet Socialist Republics (USSR), struggled for global hegemony and all other countries fell in two spheres of influence. In the aftermath of the Cold War, this bipolar international order, despite periods of tension and limited peripheral wars in, achieved some global stability. After the collapse of the USSR, the US achieved their target, their “*unipolar moment*” (Krauthammer, 1990), yet the world again enjoyed stability and peace.

Today’s world seems relatively different: China’s increasing economic and military power and Russia’s aggression, have shaken the status-quo. The US withdrawal from Afghanistan in 2021, following the withdrawal from Syria in 2014; BREXIT; the rationale beneath French President Macron’s statement about the “brain-dead” NATO; the AUKUS trilateral agreement (between US, UK and Australia) outside NATO’s framework; the awkwardness, the inertia and indecisiveness of the “western world” to end the war in the Ukraine; etc., all suggest a rise of multipolarity or apolarity in the current international order.

This situation may favour defence industries in the short run. Nevertheless, the reappearance of factors discussed above in the section of Weaknesses (autonomy, economic patriotism, introversion, fierce “intra-European” competition, etc.) will eventually have a negative impact.



4. The right of self-defence and its implications:

Well before defence was categorised as a public good, people in non-organised societies, defended themselves from various attacks, threats and dangers. Hence, the right of self-defence was derived directly from natural law (“jus naturale”), that is, the system of rights which rests in human nature and common sense. In the modern world, this right has been elaborated and certain clauses were introduced to prescribe the desired social behaviour of humans and, later nations, by creating legal obligations to comply with. Now, International Law protects the inherent right of nations to defend themselves with an abundance of prescriptions and provisions.

Characteristically, in the Charter of the UN (article 51), in the North Atlantic Treaty with which NATO was founded (article 5) and in the Treaty (of Lisbon) on the Functioning of the EU (article 42.7 which refers to the article 51 of the Charter of the UN), the provisions related to the natural right of self-defence or collective defence are almost identical. Also, delving into the legal framework that regulates the (conventional) arms trade, i.e. the Arms Trade Treaty of the UN, the General Agreement on Tariffs and Trade (GATT), the Code of Conduct on Arms Export of EU, once again the absolute coincidence of provisions is ascertained as far as the inalienable right of nations to regulate the production and arms trade according to their constitution/national laws, for the purpose of protecting their citizens.

A consequence of the aforementioned is that no organisation or supranational authority/entity can force nations to allocate their defence budget in a certain way, despite the existence of various mutual agreements and legal restrictions, taking also into account the lack of clauses for suspension. In any case, this does not mean that the arms market remains unregulated: various jurisdictional and judicial bodies from these organisations have the right, power, and authority to impose sanctions for misconduct and violations.

Moreover, while presently the EU MS appear united against the aggression, revisionism, and expansionism of Russia, this is not always the case: each and every one faces different threats and challenges and, consequently, sets different and distinct defence priorities.

To recapitulate, national defence budgets, as analysed in the section of Strengths, finance defence industries not as encouraged or “dictated”, but mainly based on current threats and risks each nation encounters.

5. Economic patriotism:

The GATT 1994 (Article III:8) and the GATT in Services (Article XIII) exclude government procurement, and thus defence procurement, from the main multilateral World Trade Organization (WTO) disciplines, i.e., trade without discrimination, freer trade through negotiation, predictability through binding and transparency, promoting fair



competition and encouraging development and economic reform. Apparently, this fact indirectly legitimises to an extent favouritism and special treatment of national companies, at the expense of openness and competition, a behaviour described as economic patriotism¹².

But well-before the GATT, the US have carried out defence procurement on the basis of the Federal Acquisition Regulation (United States Code – U.S.C), which determines explicitly from 1933 that the government prefers national companies, the famed “Buy American Act” (Title 41 “Public Contracts” U.S.C. §§ 8301–8305), and establishes from 1976 a strict nexus of provisions for arms trade control (imports-exports) for national benefit (Title “Mutual Security Assistance” 22 U.S.C. ch. 39). No need to scrutinise the various prerogatives provided to US customers, usually via the Foreign Military Sales program, such as the ease of payments, of loaning and of financing, offsets for the development of national industrial base, privileged access to excess defence articles, etc. Similar nation-centric policies are followed by China (“Made in China” national strategy), India (“Make in India” campaign), Russia, etc.

The EU, instead, with the Directive 2009/81/EC, despite recognising from the preamble that *“national security remains the sole responsibility of each Member State, in the fields of both defence and security”*, dictates that *“contracting authorities/entities shall treat economic operators equally and in a non-discriminatory manner and shall act in a transparent way”* and calls for opening-up of procurement to competition. These principles in no way discourage EU MS to waive the competition rule by invoking the “exception of defence”, which is embodied in the Treaty for the Functioning of the EU [TFEU, Art 346 (1)]¹³. This possibility of autonomous or semi-autonomous choices is reflected in the numbers of types of active weapon systems possessed by EU MS: 178 weapon systems, 17 different main battle tanks, 29 types of destroyers/frigates and 20 types of fighter jets (European Parliament, 2020). Credibly, the huge duplication of resources and the consequent lack of coherence, interoperability and deployability obstruct the target of the strategic autonomy and the development of joint defence capabilities.

The evident contrast between the political will expressed by EU officials in the legal framework for defence procurement (secondary law) and the national priorities concerning the predominant inalienable right of defence

¹² In 2005, the then French prime minister Dominique de Villepin introduced this term in the global vocabulary of trade, expressing his opposition to the acquisition of the French company Danone by the American company Pepsico. It suggests that economic choices must also protect homeland’s interests.

¹³ “1. The provisions of the Treaties shall not preclude the application of the following rules: (a) no Member State shall be obliged to supply information the disclosure of which it considers contrary to the essential interests of its security; (b) any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the internal market regarding products which are not intended for specifically military purposes.”



protected by the Treaties (primary law), does not facilitate greater transnational defence cooperation and funding in collaborative EU projects.

This lack of reciprocity and proportionality dealing with rules and principles for public procurement in general, not only in the fields of defence and security, led the EU to issue recently (23 June 2022) Regulation 2022/1031 a.k.a. the International Procurement Instrument (IPI), which aims to restore a more balanced trade relationship with its competitors. Yet, it is too early to evaluate the Directive for its effectiveness.

To summarise, the EU, as an entity, finances steadily the EDI as analysed in the section of Strengths, yet it appears vulnerable as far as the national funding and contributions directed to it in relation to its competitors, given the policies of economic patriotism that the latter apply.

Conclusions

The target of expediting progress in strategic autonomy, well-articulated in the EUGS of 2016, has acquired new meaning, dimensions, and urgency after the outbreak of war in the Ukraine. The EU, in the framework of CSDP, determined with the Strategic Compass of 2022 a laborious new course of action, not receding from the tools of soft power, but dictating preparedness and readiness for the application of hard power, wherever and whenever necessary. Well-equipped, coherent, interoperable and promptly deployable armed forces compel the substantial involvement of the EDI.

After having reviewed literature from various interrelated scientific disciplines (i.e., political science; economics; international relations and trade; European studies; law, policies, and regulations; industrial organisation; etc.), given the methodology consciously selected and its limitations, the prospects of the EDI are presented below in Table 2.

Table 2: The “elaborated” SWOT analysis of the prospects of the EDI

<u>Strengths</u>	<u>Weaknesses</u>	
<ul style="list-style-type: none"> • Stability and prosperity <ul style="list-style-type: none"> ○ Stable funding and clientele (national, from EU-NATO, etc.) ○ Internationalization of large companies ○ Solid structure after consolidation and M&As • Proven records of cooperation <ul style="list-style-type: none"> ○ Collaborations with non-EU countries, 	<ul style="list-style-type: none"> • Structure and limitations of the defence industry <ul style="list-style-type: none"> ○ Strict tier structure ○ Restricted mobility of skilful labour ○ Predominance of top companies over regional companies and SMEs ○ Stable partnerships and traditional 	Internal Factors



<p>participation in various EU-NATO projects and initiatives</p> <ul style="list-style-type: none"> ○ Economies of scale and scope ○ Adoption of a new culture • Dual-use markets and new markets/niches <ul style="list-style-type: none"> ○ Dominant acquisition strategy ○ Investment and projects in dual-use technologies and EDTs ○ Flourishing interrelation with commercial firms (start-ups included) ○ New domains of defence and security 	<p>channels of distribution</p> <ul style="list-style-type: none"> • Endogenous characteristics of the EDI <ul style="list-style-type: none"> ○ Fragmentation ○ Low internationalisation of regional industries and SMEs ○ Competition over collaboration • Costs for the development of new defence products and weapons systems <ul style="list-style-type: none"> ○ Monopolies-oligopolies ○ Deterrent factors for openness and entry (the legal framework included) 	
<u>Opportunities</u>	<u>Threats</u>	
<ul style="list-style-type: none"> • EU's strong political will – ambitious plan of action <ul style="list-style-type: none"> ○ CFSP-CSDP, EUGS, Strategic Compass, etc. • Direct defence funding and initiatives by the EU and by NATO <ul style="list-style-type: none"> ○ EDA, CARD, PESCO, CDP, EDF, EPF ○ NATO's target of 2 per cent of GDP for defence spending • Emerging markets <ul style="list-style-type: none"> ○ Poland, Saudi Arabia, India, Australia, regional powers ○ Less sophisticated weapon systems ○ Maintenance • Global trend of armaments cooperation <ul style="list-style-type: none"> ○ Fewer reluctance ○ Collaboration driven by political-military-economic factors and interests 	<ul style="list-style-type: none"> • The “ongoing” European defence integration <ul style="list-style-type: none"> ○ Political integration and economy first ○ “Iron Triangle” - lobbying • Uncertain global financial environment <ul style="list-style-type: none"> ○ Political and financial instability ○ Social call for “butter” • New international order <ul style="list-style-type: none"> ○ Multipolarity or apolarity • The right of self-defence and its implications <ul style="list-style-type: none"> ○ Legitimacy of independent policies • Economic patriotism <ul style="list-style-type: none"> ○ Preferential policies-strategies ○ Lack of reciprocity ○ Entry barriers 	External Factors
Positive	Negative	

Synoptically, critical observations, key findings and conclusions are as follows:

- The European defence ecosystem comprises not only the top highly internationalised and prosperous European industries, but also around 1.350 SMEs and others from regional countries, which sometimes fall under the radar of officials, researchers and scholars. Consequently, any generalization regarding the prospects of the EDI is potentially misleading and inaccurate.
- Certain factors like the steadily increasing funding from nations, the EU and NATO; the strong political will within the EU, and complementarily within NATO, and their ongoing and incentivized various research and



development projects; and the new markets arising, have a notable impact to both large defence industries and the SMEs.

- Large defence industries also exploit their stable clientele and well-established channels of distribution; their privileged access to specialized workforce; their solid structure; the production of dual-use products which leads to economies of scale and scope; their internationalized profile and concurrent collaborations globally; the structure of the market and their dominant market share; their plausible potential to better deal with cost, financial and cost-related factors, etc.

- SMEs and regional industries may benefit from ventures under the auspices of the EU and NATO, for example the accelerating investments for EDTs, R&D or start-ups; from new markets arising globally or by assuming a more active role in secondary markets (maintenance, support, spare parts, etc.) and/or the production of less sophisticated weapon systems. Outwardly, many deterrent factors, like the endogenous characteristics and the structure of the market; cost, financial and cost-related factors; difficulties in accessing specialized labor etc., either endanger their existence or restrict their prospects for further development and expansion.

- The reluctance noted in European defence integration, at least before the outbreak of war in the Ukraine; the current global financial environment of uncertainty and instability; the new international order of apolarity/multipolarity; the absence of “fair play” (i.e. economic patriotism, preferential policies and lack of reciprocity) and the intense rivalry for defence contracts etc., emerge as the most important threats for the EDI.



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