

Risks and opportunities for the Defence Budget after the Economic Crisis

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When in the wake of the year 2008 the worldwide crisis embraced further states, not too many expected that it could turn out for good in the case of Poland. When further governments decided to pump in billions into national economies, the Polish government has decided to act in a different manner. Our finance minister Jan Vincent Rostowski, did not bow neither to pressure of the opposition nor has he copied the actions undertaken by other governments and has chosen his own way.

Already in 2009 Poland had decided to generate savings. Donald Tusk, the Prime Minister, announced the measure of looking for areas, which were supposed to be encompassed with cuts. He summoned further ministers and ruthlessly cut their budgets. I remember that expectations towards the Minister of Defence - Bogdan Klich – were the greatest. Considering the fact that the army enjoys one of the largest budgets while we find ourselves within the new reality of a Europe relaxed after the fall of the iron curtain, this seemed to be the ideal sector for cuts.

The fallout of the crisis reached, amongst others, five main modernization programs: Programs concerning air defence, naval forces, command systems as well as communications and pilotless means of reconnaissance. For his efforts in confronting the financial crises, Minister Rostowski received prizes, distinctions and the title of the *Finance Minister of the Year*, amongst others from the prestigious „Banker” magazine in the year of 2009. At the same time, Poland became renown and won recognition as the single country that has been able to omit the painful results of the crisis. In

comparison to crisis stricken and limping Europe we have been able to become an economist „Safe Heaven” – the only state with economical growth. Nevertheless, the satisfaction from such a position has not resulted in the disappearance of any worry with regard our safety from the scope of our every day interest. Also bearing in mind our experience of success in economic reforms in early nineties we support the strict fiscal measures advocated by Germany and the Nordic countries. Unfortunately, the side effect of them is reduction in military spending.

In order to be able to understand the position of Poland we ought to remind ourselves of its present situation. The Polish state as well as other post-communist countries, in a much more careful manner than other countries, firmly follows the adopted positions and policy decisions of contemporary Russia. Russia continues to consider the states in Eastern Europe as part of its own sphere of influence, and attempts to establish a division between them and the western European States. The issue of the security of Poland is in a permanent way connected to its geographical location – i.e. the vicinity of Russia and the fact of Poland being the biggest border country of the European Union and NATO. Unfortunately NATO is not ready yet to establish it's bigger military installments in the region, comparable with those existing in Germany. Therefore the potential of Polish state combined with it's geographical position increases Poland's responsibility for maintaining security in broader East Central European Region. This is why the ongoing process of modernization and professionalization of our army is of highest importance not only to us, but also to the rest NATO members including most vulnerable Baltic States.

As a Polish politician for several years now preoccupied with international issues and amongst others, being responsible for the co-ordination of inter-parliament contacts, I am able to responsibly guarantee that the issue of safety has always been treated by us as being inseparably connected to the discussion on the topic of the safety of the whole European Union. As a citizen of a former USSR satellite country it is hard for me to welcome the returning, almost boomerang-like, power oriented aspirations of Moscow. Anxiety has been subject to increase when Russia attacked sovereign Georgia (one of the states encompassed within the Polish initiated Partnership Program) and then ignored all of the points of the cease fire agreement, which was set forward by Nicolas Sarkozy, the French President. AN other example of Russia's new assertiveness is provided by the recently completed, huge Russian military maneuvers, which were held on the polish border and which were known under the codenames of ŁADOGA and ZAPAD. In those maneuvers the assumed enemy was constituted by Poland. These events have been mirrored in the questions which I have addressed to the European Parliament, as well as through the statements which have been made by the Polish Foreign Affairs Minister Mr. Radosław Sikorski. Unfortunalty, until now, in my opinion, these questions have not met with any adequate reaction. The aforementioned military maneuvers are hostile statements and they have to be taken into the consideration in the process of discussing the issue of national safety.

Russian defence expenditure this year alone will amount to 63 billion USD, which constitutes almost 1/5 of the whole budget of the Russian state and represents a significant increase in comparison to 2010 (42 billion USD). Moreover, the Russian government has initiated the implementation of a new military force arming- and modernization program,

which will last until the 2020 and which foresees the purchase and modernization of military equipment amounting to a total of 650 billion USD within the aforementioned period.

Nevertheless, military challenges are not only ones constituted in certain time perspective in Eastern Europe. Nowadays we may observe the growing number of worldwide proof that the issue of standardization of the military industry, in such manner so that it could constitute the area of budget cuts, but at the same time did not lose its value, is beginning to become much more urgent.

Only two years have passed since Europe has agreed to conclude the Lisbon Treaty and invested onto clear institutionalism – amongst others by Herman Van Rompuy's nomination to the post as President of the European Council as well as Catherine Ashton as the High Representative of the Union for Foreign Affairs and Security Policy. Their task is it to fill the general outlines of the Lisbon Treaty with adequate content.

At the same time an ongoing discussion is conveyed with regard to the further direction of integration. Beside the discussion with regard to the common fiscal policy and budget regimes - fundamental to the future of the European Union and taking place as the result of the issue of defence is most frequently brought up. Despite the scale of the difficulty of the aforementioned challenges, Poland has decided to make defence-related questions one of the priorities of its Presidency, which started on the 1st July 2011. The Minister of Defence of the Republic of Poland B. Klich declared that one of the goals of the Polish presidency will be constituted by the initiation the discussion of bringing the European Union and NATO closer, in order to avoid for the occurrence of any doubling of operation of the two aforementioned organizations as well as bearing of unjustified costs subject to the aforementioned. In December 2010 the Foreign Ministers of Poland, France and Germany submitted a joint letter to the High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, in which they underlined the necessity for the adoption of a "fresh" approach to CSDP as well as intensification of the co-operation with NATO. One thing is sure is that after a half year long presidency of Poland we will be able to obtain a substantial amount of clarity topped with the fact that nothing shall mobilize as every day cooperation, within which we are faced in Libya. The review of topics, which the European agenda will consist of, constitutes the subject of the hereinafter article.

Before we start, we should state a few remarks with regard to the approach towards the problem that we face. The Lisbon Treaty provides the European Union with whole and particular competences with regard to safety and defence, amongst others, and determining tasks of the European Defence Agency (EDA). From the moment of adoption of the Treaty what may be observed is the insufficient activity of the European Union (European Committee, European External Action Service) within the aforementioned area. Cooperation within the military as well as co-operation of military and defence industries of member states and activities coordinated by the EDA are much more required today than at any other time in the past. Nevertheless without a political strategy for the development of the defence industry, such activities will not be able to lead to any changes enabling the European Union to meet the demands of the future as well as the attainment

of the position of the global player. What is therefore necessary is the urgent initiation of a general European dialogue with regard to security and defence, which should, to a large extent, lead to the defining of the vision for the future, which the European Union faces as the unified body, and which the European Union wishes and would like to manage. Only in the occurrence of such a case will it be possible for a clear cut determination of the CSDP tasks, and what is extremely important within the context of the ongoing economic crisis, the definition of areas where particular defence sectors of member states may be effectively coordinated. In other words, the coordination of the European defence policy as well as cooperation of European defence industry will be valid and justified only when Europe possess a clearly defined vision, on what type of military equipment Europe needs in long term perspective. Moreover, what is necessary is the conveyance of the aforementioned reliable debate with regard the future environment of international security, within which the European Union will function in the future. Without the aforementioned debate as well as an adequate dialogue, which will result in the undertaking of particular decisions within the area of defence, the positive activities undertaken by EDA, bilateral and multilateral initiatives of particular member states, will introduce only a fragmentary success. The European Union as the whole will be sentenced to further reductions within defence budgets of its member states, which in the long term perspective shall result in the decrease of military possibilities as well as the global influence of Europe upon the formation of a new international reality, and the world after the crisis shall be a less Western World.

Foreign policy is not the subject of dictating or imposing of one's own opinion onto others. We practice compromise as the Members of the European Parliament every day in the buildings of the Parliament in Brussels and Strasbourg. If you are unable to effectively reach a compromise in Europe, you simply do not exist. The art of compromise and sometimes finding common grounds for contrary priorities is in the case of a conversation on the topic of defence an inseparable issue, with the superimposing degree of complication of the mutually existing relations as well as systems presents between the countries.

The immanent section of such a general European dialogue should be also constituted by the issue of EU-NATO relations (the issue of conflicting-competences, redundant-infrastructure etc.). Both organizations convey foreign missions within the same parts of the world, with the commitment of military forces from the same member states, nevertheless functioning as part of two completely separate structures. Especially in the era of economic crisis and in the era of military budget cuts within European Union member states, the continuation of such a situation seems to be unjustified.

Upon this issue of overlaps a fact that the scale of the reduction of European military and defence expenditure generates a justified concern for the USA, for which within time perspective, such will result in the increase of expenditure towards worldwide military missions (especially in the case of Afghanistan). Currently only 5 out of 28 of NATO members fulfill the obligation of devoting 2% of GDP annually towards defence oriented projects. Recent reductions of defence budgets conveyed in connection to the global economical crisis introduce a real threat of deterioration of the aforementioned tendency, at the expense of the USA as well as military capabilities of NATO as a whole.



In accordance with this trend, in the last two years, European NATO members have reduced expenditure towards defence by about 45 billion USD.¹ Cuts within military budgets in the majority of European countries currently reach the level of 5 to 10%, in some cases reaching as much as 50%.² In the next three years, Germany is planning to reduce the budget of its Ministry of Defence by 11 billion USD, abandon the general military draft as well as decrease the size of its military from 240 to 180-160 thousand soldiers. The Netherlands is planning to decrease the number of Defence Ministry employees by 15%. In the upcoming years, the United Kingdom is planning to reduce defence expenditure by 8%. Before 2013 Italy will decrease its defence ministry budget by 10%. France is planning to decrease the budget of the ministry of defence by 5 billion Euros within the next three years and on top of that is also planning to decrease the number of civil and military employees of the Ministry of Defence by about 50 thousand employees.³ If Jane's Defence forecasts are to be believed, the combined defence budgets cuts of Great Britain,

¹ NATO Secretary General A.F. Rasmussen at a press conference in Brussels, 7 February 2011. Accessible at: <<http://www.ft.com/cms/s/0/db0fb476-32fd-11e0-9a61-00144feabdc0.html#axzz1FjMy3BbJ>>. Accessed on: 7 Feb. 2011.

² MAGRASSI Carlo., Better Spending in Security and Defence, address on European Security Foundation Conference on "New Development in ESDP", Brussels, 5 October 2010. Accessible at: <<http://www.eda.europa.eu/newsitem.aspx?id=677>>. Accessed on: 6 Oct. 2010.

³ European powers cut defense budgets. In: United Press International, June 2, 2010. Accessible at: <http://www.upi.com/Business_News/Security-Industry/2010/06/02/European-powers-cut-defense-budgets/UPI-78681275513003/print/>. Accessed on 2 Jun. 2010.

France and Germany alone, between the years of 2010-2014, will total 23 billions USD.⁴ Such significant cuts in expenditure devoted towards defence may result in the significant decrease of military capability of European states as well as NATO. Within the dynamically changing environment of international security this would de facto represent the limiting of the presence of NATO within crisis areas all over the world, as well as limiting of the responsibility for the ensuring of international security and stability. (...)

The consequences of budget disciplining actions as well as limiting of expenditure towards defence upon the European continent could be even more severe in the context of the global role and meaning of Europe. All that needs to be considered are the tendencies within the military budgets of states upon other continents (potential rivals). For example, this year China will continue to increase its defence expenditure (in accordance to official data, many experts however believe those to be underestimated) - by 12,7%, i.e. 91,5 billion USD; in 2010 this increase amounted to 7,5% in comparison to 2009).⁵ In 2011 the United States increased its basic Department of Defence budget (without foreign missions) by 7 billion USD (up to the level of 533 billion USD) and are announcing to further increase it to 553 billion USD in 2012.⁶ India is increasing defence expenditure in 2011 by 11,6% (up to the level of 46 billion USD).⁷ What should be added is the fact that the share of Asian states within nationwide expenditure devoted towards defence is still subject to constant increase (from 24% in 2007 up to the foreseen 32% in 2016).⁸ A similar contrast can be observed through observing the role of the European industry sector worldwide. In accordance to SIPRI data from the year 2009, from amongst 20 largest arms manufacturers were only six European based firms (BAE Systems, EADS, Finmeccanica, Thales, SAFRAN and Rolls Royce).⁹ The Minister of Defence of the Republic of France, H. Morin stated directly that without greater expenditure towards defense Europe is encumbering the risk of becoming “a protectorate” within the world dominated by the United States and China.¹⁰

All of these occurrences constitute the subjects of vivid discussions both within the European Parliament as well as other European Union institutions, as well as within the particular European Union member states. Thus executing the review of possibilities and challenges which Europe is currently facing, within the context of changes indispensable

⁴ ANDERSON G., BELL M.: European companies warned of lure of sovereign wealth funds, *Jane's Defence Weekly*, 14.12.2010.

⁵ China says it will boost its defence budget in 2011. In: *BBC Business News*, 04.03.2011. Accessible at: <<http://www.bbc.co.uk/news/business-12631357>> Accessed on: 4 Mar. 2011.

⁶ ENGLER Mark, US military spending marches on. In: *The Guardian*, 28.02.2011. Accessible at: <<http://www.guardian.co.uk/commentisfree/cifamerica/2011/feb/28/us-military-public-finance>> Accessed on 28 Feb. 2011.

⁷ India ups defence budget 11.6% to overhaul military, *Business Times*, 01.03.2011. Accessible at: <<http://www.business-times.com.sg/sub/news/story/0,4574,428210,00.html>> Accessed on 1 Mar. 2011.

⁸ BRADDON Derek, What lies ahead? defence, budgets and the financial crisis. In: *NATO Review 2009 World financial crisis: what it means for security, 2009*. Accessible at: <<http://www.nato.int/docu/review/2009/FinancialCrisis/Defence-Budget-Financial-Crisis/EN/index.htm>>

⁹ The SIPRI Top 100 arms-producing companies, 2009. In: *Stockholm International Peace Research Institute webpage*. Accessible at: <<http://www.sipri.org/research/armaments/production/Top100/>>

¹⁰ AMES Paul, Ministers agree to push forward pooling and sparing. In: *Europolitics*, 24.09.2010 Accessible at: <<http://www.europolitics.info/sectoral-policies/ministers-agree-to-push-forward-pooling-and-sharing-art282145-13.html>> Accessed on 24 Sep. 2010

for implementation we shall have a look at „standard” (upon the national level) as well as „non-standard” (at the general European level) methods of activity. Taking a look at „standard” methods of introduction of savings within military budgets and we are able to distinguish the following groups of costs:

Operational costs – which encompass both the costs of conveying foreign missions as well as every day costs of functioning of military forces (fuel, ammunition etc.)

The majority of European states are forced to cope with the necessity of bearing direct and indirect expenditure connected to the participation within foreign missions (replacements, maintenance of equipment etc.). Pulling out from such missions is for the majority of European countries a risky task from the political point of view shaking creditability in the eyes of allies. Therefore the possibilities for the reduction of operational costs are for the majority of European defence ministries significantly limited.

Costs of personnel – Altogether European countries possess about 1,7 million soldiers at their disposal and they spend around 51% of their resources towards upkeep and maintenance of their soldiers (2009). In comparison, in the United States (1,4 million soldiers) the costs of personnel upkeep amount to 21% of the budget of the Department of Defense. The American experience may therefore constitute an interesting example to be followed by European countries, many of which, as it had already been mentioned, have already initiated the implementation of reforms aimed at the decrease of employment within the defence sector, the abandonment of obligatory military draft etc. Savings seem to be much more significant within the aforementioned group, especially if we consider the comparison of the level of expenditure devoted towards to the upkeep and maintenance of military personnel in Europe and in the United States.

The costs of investments – This area provides a great potential for savings, while at the same time constitutes a potential risk of deepening of the technological gap between Europe and the USA (in the future also with other global rivals). In accordance to the decision of the Steering Council (at the ministerial level) of the European Defence Agency, the target value of equipment purchases within defence budgets of European Union members should amount to 20%, with 2% of the amount being devoted towards development and research works. The decision which is likely to go within the adequate direction, underlines the meaning of technological development to the future of the defence sector. What needs to be remembered is the fact that the de facto expenditure of the European Union member states towards research and development projects is subject to gradual and constant decrease ever since 2006 and constitute 1/6th of funds devoted to research and development works spent in the USA. Therefore the gap is broadening. Who is spending that, EU or UAS? And what is the counterpart spending?

Whereas with regard to non-conventional methods of generating savings in defence-spending within the European context, such are, above all, connected to the possibilities of cooperation as well as to instruments, which are already functioning within the aforementioned scope upon the European continent (all that needs to be enumerated are: mutual military bases, specialization, mutual orders of equipment).

The possibilities of European cooperation within the scope of defence encompass at least two possible methods of cooperation: what I mean is bilateral and multilateral cooperation between particular states, as well as cooperation on a general, European Union based level.

The excellent and promising example of the first type of cooperation is constituted by the British-French agreement dated 2nd November 2010. The agreement has been concluded in the spirit of Declaration from Saint Malo (1998), which consists of two treaties, and amongst others, foresees the formation of mutual military basis, mutual projects within the scope of nuclear deterrence, equipment policy and communications.¹¹ What needs to be underlined is that the aforementioned agreement foresees almost instant implementation of particular, introducing real savings, solutions within the situation, within which an unsettled discussion is still taking place with regard to the future shape of the European defence policy as well as the shape of the defence industry. As a result the French-British cooperation may constitute a fundamental example for the future of defence policy as well as European industrial defence systems. Thus by strengthening military capabilities of both countries, the agreement de facto strengthens military capabilities of the European Union as the whole (British-French treaties are connected to the cooperation, amongst others within the scope of cyber safety, satellite communications, safety at seas – issues touched upon within the Lisbon Treaty). The foreseen formation and establishment of common military units and bases meant to be applied in foreign missions, constitutes a further step, which may lead to the establishment of broader general European structures, possessing at their disposal real (and not only theoretical) possibilities for operational activitSpeaking of cooperation at the European Union level, two possible options of cooperation may be analyzed:

- Establishment of a unified general European arms market and the consolidation of the European defence industry.



The concept for the establishment of a unified arms market and the consolidation of the European defence industry faces numerous challenges. First of all, considering the specifics of the sector, this type of consolidation will require even stronger integration at the political level (safety and sovereignty of particular states). Second of all, the process of consolidating the defence industry will de facto also bring with it the necessity of liquidating of the number of companies within the particular member states, which for the government of such states constitute an aspect of significant importance (in accordance to the assessments of the European Committee within defence industry of European Union states, there are on average 1,6 million people employed within this sector). Third of all, what needs to be remembered, are the differences which are present between various European Union member states, regarding policies of regulating the public and private sector. In Great Britain, Denmark or the Netherlands, the public and private spheres are regulated separately, while, for instance, in France the border between the aforementioned spheres are relatively “liquid”. Moreover, what is understood is that the majority of European states are still considering investments within the defence industry sector upon the general European level, based upon the principle of even division of benefits (*juste retour*).¹² Moreover, amongst European countries there exist a number of divergences in the approach to the idea of broader cooperation within the defence sector (the example may be constituted by the veto of Great Britain with regard to the increase of the budget of the European Defence Agency, as well as even questioning the legitimacy and workability of such an institution). Fifth of all, possibly the most important factor, is that the consolidation and concentration of defence industries of European Union member states, may by itself lead to the diminishing of the potential of the consolidated defence industry sector. This is connected to the potential threat of the establishment of monopolies within the sector of arms manufacturing, a fact that per se will have a negative impact upon the innovation of the given sector. Within the aforementioned scope, the United States may once more could serve as an example, where the successes of arms manufacturers as well as the unparalleled technological progress within the military and defence industry, are to a great extent connected to the rivalry of particular manufacturers of military equipment with regard to the winning of orders from the Department of Defense. What needs to be remembered is the fact that the current worldwide financial and economical crisis, has not led to the formation of any serious and “seriously” considered concepts of consolidation of the defence industry sector comparable to the nationwide scale in the USA. Pluralism and healthy competition constitute the real conditions of technical progress within every area, especially within the defence industry.

(...) The fact which is missing within the context of the ongoing economical crisis is the coordination of the aforementioned cooperation upon the European level in order to omit the costly redundancy of projects and programs. What is necessary is the undertaking of comprehensive initiatives, which lead to the more effective application of shrinking assets within defence budgets of member states.

¹² LAWRENCE Tony, Europe's Defence in Times of Economic Crisis. In: International Centre for Defence Studies, 14.01.2011. Accessible at: <[http://www.icds.ee/index.php?id=73&L=1&tx_ttnews\[tt_news\]=802&tx_ttnews\[backPid\]=100&Hash=69e1a85d1b](http://www.icds.ee/index.php?id=73&L=1&tx_ttnews[tt_news]=802&tx_ttnews[backPid]=100&Hash=69e1a85d1b)> Accessed on: 14 Jan. 2011.

Tightening of cooperation as part of the broadly understood defence, I understand as:

- Harmonization and introduction of coherent hardware requirements, which would allow for an increase in standardization and compatibility,
- Coordination of expenditure devoted towards research and development (R&D), as part of the European Defence Research & Technology Strategy¹³
- The development of mutual arms programs,
- Strengthening of mechanisms of competitiveness upon the European arms market, in order to stimulate the rivalry and cooperation amongst manufacturers (with the consideration of the specifics of particular markets of member states).

Adoptions of such approaches provide the greatest hopes for effective activities and rapid effects. In connection to the existing divergences, Europe must temporarily base its activities on already functioning tools. One of the already existing instruments and areas of cooperation is constituted by the European Defence Agency (EDA). On the 9th December 2010, at the meeting in Brussels, ministers of defence of the European Union member states have agreed with regard to the necessity of tightening of cooperation within the defence industrial sector in order to decrease the costs of the economical and financial crisis and have backed the German-Swedish proposal for the conveyance of the analysis of all of the potential areas where the tightening of such cooperation is possible.¹⁴ Ministers have also summoned EDA to intensify works over the identification of such areas. Despite the existing problems and divergences (upon the aforementioned meeting Great Britain has again blocked the proposal for the increase of the EDA budget by 3,8%), the above described meeting constitutes an important step in the direction towards the development of cooperation within the area of defence on a general European level.

EDA, which does not possess any competence within the scope of public orders, could become the means of coordination of the process of cooperation of defence industry sectors of the European Union member states. What needs to be remembered is that numerous such cooperation programs have been existed for dozens of years and have produced excellent results.

What needs to be remembered is that Poland wants to move forward. Within the last weeks we have agreed that one of the subjects which will be discussed will be constituted by our proposal connected to the introduction of the principle in accordance to which stabilisation missions which are executed under the flag of the European Union, would be financed directly from the budget. I am a staunch supporter of the aforementioned idea and I hope that it will contribute to the increase of the effectiveness of European Union military forces.

¹³ EU should boost European Defence Agency funding on R&D. In: European Security and Defence Assembly, Assembly of WEU, Paris, 01.12.2010. Accessible at: <http://www.assembly-weu.org/en/presse/cp/2010/49_2010.php> Accessed on 1 Dec. 2010.

¹⁴ EU urges defence collaboration, UK blocks budget. In: Money Control, 10.12.2010. Accessible at: <http://www.moneycontrol.com/news/world-news/eu-urges-defence-collaboration-uk-blocks-budget_504345.html> Accessed on 10 Dec. 2010.