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**Arms Procurement in the
European Union: Achieving
Mission Impossible?**

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Introduction¹

In spite the European Commission's long-running efforts to extend the common market to military armaments, defence procurement remains one of the major exemptions from the Single European Market. A combination of member state protection of their armaments industry and the European Union's predominantly civilian status ensured that, until recently, very the quest for a common armaments policy was all but an impossible mission (Eliassen 1998). However, the confluence of a stronger EU presence in security and defence matters, the 'public turn' of the single market programme and a few big arms-producing states sensitivity to defence costs brought increased focus on questions of arms procurement in the first few years of the new century. Proposals for a European defence procurement agency were raised in the run-up to the Constitutional Convention, but gave way to more concrete proposals for a European Defence Agency charged with a broader set of tasks. The EDA concept was soon detached from the Convention, and the Council of Ministers formally launched the new body as an intergovernmental organisation inside the EU framework, on 12 July 2004. The present paper explores the reasons for this recent success, and looks back to the previous problems of armaments cooperation in order to assess the prospects of the EDA to develop anything like a fully functioning common armaments policy. The first part assesses the obstacles to armament cooperation in the EU, the second part addresses the recent establishment of the EDA, and the third part assesses how far the new organisation is equipped to overcome the long-standing obstacles to EU cooperation on arms procurement.

Defence Exemptions and Armaments Procurement in a Civilian EU

The defence sector has proven one of the most resilient sectors in the face of the efforts to establish a Single European Market (Schmitt 2005, Rhode 2004) To be sure,

¹ The present paper is part of a CEAS research project on sectors that enjoy special exemptions from EU single market rules, and draws on a series of research reports on armaments production and procurement in Europe (available at the CEAS web-site).

banking ownership and culture and the media also enjoy special exemptions from some SEM rules (Eliassen, Monsen & Sitter 2003; Eliassen & Sitter 2004), and the first decade after the formal establishment of the SEM in 1992 saw only a gradual extension of SEM rules to the utilities sectors and public procurement. Yet the defence sector has proven particularly resilient, for three reasons. First, the EU is primarily a civilian organisation, and there has been relatively little spillover from civilian to defence matters. European integration has developed as an ad hoc process, featuring a range of organisations which have only recently been integrated into the EU framework. Second, even if the EU member states share some common trajectories in terms of the development of their markets and public policies, and competition policy had largely come to take the place of interventionist industrial policy, considerable differences remain in the twenty-five states' industrial policy. The defence sector is almost the last bastion of interventionist and protectionist policy in an increasingly free-market and integrated European Union. Third, revision of the exemptions for defence require unanimous agreement among the member states unlike, for example, the extension of the SEM to the telecoms, gas and electricity sectors in the 1990s. In the latter case the Commission even enjoyed the power unilaterally to break up member state monopolies, although for fear of conflict with powerful member states it was reluctant to use this other than in the telecommunications sector. The fourth problem undermining the ability to develop an integrated European armament procurement strategy is the differences in resources for defence purposes and the resulting technological gap between the US and Europe.

First, the European Union is first and foremost a civilian organisation, and has only recently been extended to cover defence and military affairs. Although the EU (or more precisely, the European organisations that preceded it: the ECSC, Euratom and the EEC) were forged in the aftermath of WWII, and the goal of securing both peace and prosperity shaped much of the early debate about European integration, the EU is primarily a civilian organisation (Hill 1993; Soetendorp 1999; Hoffmann 2000). The European Defence Community of the 1950s was not ratified, and defence matters during the cold war fell with NATO's (and to a lesser extent the West European Union's) remit. Military affairs were excluded even from the aspects of EU policy that might have affected them the most: the common market rules of competition policy and free movement of goods. Article 296 of the Treaty (formerly Article 223)

provides an exemption for defence products and armaments procurement from EU competition law. Although the Commission has long sought to eliminate or narrow down this exemption, it remains in force (Mörth 2000, 2003). During the 1990s, as the EU developed its Common Foreign and Security policy and moved towards closer defence cooperation, the Article 296 exemption came under increasing criticism. The Commission's recent focus on 'dual use' product (i.e. products that have both civilian and military uses) and its narrow definition of 'military use' has also contributed to blurring the line that excludes defence products from common EU rules. Finally the EU absorbed most of the WEU's functions (though not cooperation on armaments) with the Nice Treaty, and has proceeded to develop its own military agencies. The EU's old civilian character was thus subject to considerable revision in the late 1990s and early 2000s.

Second, the resilience of Article 296 is as much down to some member states' protectionist industrial policy as to the EU's civilian status. The central issue in the defence sector has been the balance between national sovereignty and the benefits of European co-ordination, in military as well as economic terms (De Vestel 1998; Mawdsley 2000). Industrial policy concerns have therefore encroached on the debate on common procurement because as defence procurement generates demand for domestic industry. Although a number of member states oppose the EU-wide practice of offset provisions (whereby if country A imports defence products from country B, these are 'offset' by country B reciprocally importing defence products from country A), none are prepared unilaterally to abandon this practice. Offset arrangements are a type of prisoners' dilemma, where individual rational pursuit of self interest prevents co-operation that would benefit the actors involved. But if this were merely a problem of co-ordination, it could be solved by expanding the role of the European Commission. The close identification of interests between nation defence industry and governments ensures that it is not. To be sure, with a shift toward increasing focus on the benefits of free trade, the states that believe their companies to be competitive on the international markets (such as Sweden and the Netherlands) increasingly regard offset as a necessary evil rather than an unequivocal benefit. Yet even eliminating offset might make sense in economic terms, and according to common theories of trade, the domestic defence industries have proven sufficiently strong to oppose such moves. Many states regard offset as necessary to compensate for defence expenditure

abroad, and it has long been considered apparent that their industry benefits from such protection. Arguments are generally cast in terms of industrial policy, protecting employment in vulnerable sectors and maintaining technological competence. Even in states which governments are generally sceptical of offset, and where even the defence industry is opposed to it in principle (such as in the Netherlands), particular offset provisions are often defended as a necessary evil (Eliassen & Skriver 2002).

Third, the EU's decision making rules are not amenable to radical change, at least not where some states claim that their economic interests are at stake. The EU is a plural regime not only in the sense that its member states feature different languages and cultures; they also feature very different administrative and industrial systems. Consequently, decision making in sectors that some states consider of vital national interests is normally slow, and change is often incremental. Compromises accommodate differences, but at the cost of coherence. Even where the goals are agreed, it does not follow that the means are uncontroversial. In the case of defence procurement, the central questions include the states' different industrial structures, state ownership and security procedures. Efforts to design a common system for arms procurement therefore face the challenge of combining several different administrative systems and procurement practices. As far as efforts to liberalise defence procurement are concerned, this means a quest for compromise between the liberal states' orientation toward free trade, the more protectionist states like Spain and France's preoccupation with industrial policy, as well as the smaller states' expectations that their increasingly specialised defence industry might benefit from a common market.

A fourth basic problem is the total amount of resources available in Europe for military spending, especially seen in relation to the lack of harmonisation of procurement among member states (Vlachos-Dengler 2004). Three European aircrafts were developed in the 1990s and more than ten different tanks, which makes the situation even worse. This lack of resources leads to the fact that there will be a technology gap between the US and Europe for the foreseeable future. At the same time the American defence industry can easily compete on the European market, but history has shown that there are severe difficulties for European producers to enter the American market. The best example of this in recent years is the Joint Strike Fighter

(JSF) aircraft, which was intended to create a possibility of joint development and technological cooperation. During the 1990s the European defence industry and the Commission frequently expressed concerns about this transatlantic gap and tried to use this as an argument for increased European armament cooperation, but in vain.

Liberalisation of EU defence markets has therefore practically been a ‘mission impossible’, one or two important initiatives notwithstanding. Like the (West) European states’ approach to military and defence integration, the efforts toward cooperation in the field of defence procurement have been ad hoc, and do not fall into one consistent pattern. To be sure, over the last two decades European integration has brought about closer ties between civilian and military organisations in Europe, not least with EU’s assumption of a number of military tasks and the incorporation of much of the WEU into the EU. Nevertheless, cooperation in defence procurement has taken three broad forms: cooperation outside the EU structure, cooperation among a small number of EU states, and proper EU-based initiatives.

The first initiative came wholly outside the EU, and was developed within the WEU framework. It was based on voluntary cooperation, and controlled at the national level. The West European Armaments Group (WEAG) was established in 1992, building on the Independent European Programmes Groups that was launched by the European NATO members in 1976. WEAG’s principal role was the development of common programmes with a view to harmonisation of armaments requirements, procurement procedures and research and development (Hottiaux & Lipinska-Lsaberou 2000). Its basic principles were that all member states should participate fully in European arms procurement co-operation, that there should be a single forum for this purpose, and that arms procurement should be managed by the National Armaments Directors (accountable to national ministries of defence). However, WEAG has drawn only limited interest from most of the states involved: in Schmitt’s analysis (2002:23), it “addressed the right issues, but has lacked the means and structures to find satisfactory solutions.” The West European Armaments Organisation (WEAO) was established within the WEAG framework (but with its own legal personality) in 1996. Like WEAG, it had a relatively moderate impact on European arms procurement. Although it was designed as a possible future armaments

agency, it has been limited to research and technology projects, and even these have been limited.

More successful initiatives have launched by a more limited number of states. The Organisation for Joint Armaments Co-operation was formed in 1996 by Germany, France, Italy and the UK, and designed to improve the management of collaborative armament programmes. Its central principles included replacing the *just retour* principle (see below), promoting the armaments industry, promoting a competitive industrial base, harmonisation of requirements and technology and cooperation with third countries. The four original signatories covered well over two-thirds of European defence production, and the organisation has since been expanded to include Belgium and Spain. Other non-members are invited to participate in its programmes on a case-by-case basis. The governments involved agreed to allot shares of work based on the total set of projects OCCAR manages, rather than share work on a programme-by-programme basis. This replaced the *juste retour* principle, which sought to align work-share and cost-share between countries in each collective programme. In this sense it was the first European organisation for management of arms procurement (Cornu 2001). In 2001 the organisation acquired legal status, which allows it to sign contracts with industry on behalf of its member states. OCCAR inherited a number of projects including the GTK/MRAV armoured vehicle, Tiger helicopters, Roland air defence systems and Milan and Hot anti-tank missiles, as well as a series of bi- and tri-lateral projects. The Corba anti-artillery radar was its first integrated project, and the Airbus A400M deal was its first new programme. The latter was generally seen as an opportunity to extend armaments cooperation and transform OCCAR into a European Armaments Agency. However, the programme was encountered a number of problems in securing member state cooperation, including Italy's withdrawal and delays in Greek and German orders. The central problem remained the dependence on the member states (Strys 2004). The project thus illustrated some of the problems inherent in co-operation on defence procurement (Bauer & Winks 2001). However, it also illustrated that non-OCCAR members could participate on an ad hoc basis, thus hinting at future and wider co-operation. In effect, OCCAR replaced offset with a more co-operative compensation regime, but questions remain as to whether this is actually more efficient than offset in terms of costs. It remains focussed on the downstream aspects of armaments cooperation, i.e.

production and programme management, rather than the definition of requirements (Damro 2005).

In July 2000, the UK, France, Germany, Italy, Spain and Sweden signed the Framework Agreement based on the Letter of Intent of 1998, an accord designed to ease export restrictions and thereby encourage cross-border mergers and joint ventures in the defence industry and harmonise national rules related to defence procurement (Dumoulin et al 2003). Like OCCAR, it was thus an initiative launched by a small number of EU members, the states most heavily involved in the industry. Signed after more than two years of negotiations, it indicated the continuing difficulties involved in co-ordinating defence procurement. The signatories committed themselves to simplifying export procedures, not to hinder the supply of defence material to other states, to simplify security procedures, harmonise contracting procedures regarding technical information, to harmonise military requirements and equipment planning, and foster joint research programmes. The initiative has seen some success on procedures for research and technology and the states have agreed to harmonise procurement policy and joint requirements as well as procurement methods. The main achievement is the establishment of a forum where technical issues and industrial policy is discussed, with a view to solving specific problems and addressing the main obstacles to armaments co-operation. Like OCCAR, it represented a pragmatic attempt to address the pressure for change in defence procurement, but without incorporating defence procurement into the EU's single market project. However, whereas OCCAR operates on a (downstream) programme-by-programme basis, the LoI/FA initiative was designed as a forum for political as well and technological harmonisation.

Full EU initiatives have to date been less significant in the quest for cooperation on armaments in Europe. The principal venue for initiatives linked to armaments policy and coordination of procurement rules is the Council of Ministers' ad hoc European Armaments Policy Working Group (POLARM), which was originally set up in 1995 to report on options for a common armaments policy and recommend future action. Its achievements have been limited, but it is sometimes seen as a sign that the member states are increasingly prepared to address armaments policy at an EU level (Schmitt

2003), and as a building block for a future permanent body linked to the EU military staff (Keohane 2002, 2004).

In short, a range of initiatives were launched during the 1990s in an attempt to increase coordination of arms procurement in Europe, but with at best limited success. The partial success has been on the downstream side, where the substantial reduction in contracts in post-Cold War Europe and the increased costs (because of technological development and weapons complexity) forced a restructuring of the European defence industry. The reasons for this political (upstream) failure are linked to the basic problems that surround foreign and security cooperation in the EU in general, and by the late 1990s there were few signs that these problems could be easily overcome (Eliassen 1998). Yet by the time the Convention was established and given the task of drawing up a draft constitution for the EU, circumstances had begun to change. The Commission's continuing effort gradually to extend the single market to the defence sector began to produce more results when it came together with the revitalisation of Common Foreign and Security Policy initiatives and the EU's increasing role in military and defence policy with the development of a European Security and Defence Policy, and with shift in French and German (and even to some extent British) attitudes away from protectionism.

An Idea which Time has Come? The European Defence Agency and Armaments Policy

A moderate breakthrough came with the Franco-British proposal for a new EU defence agency in early 2003, and the agreement at the June 2003 summit in Thessaloniki to establish such an agency. This was hardly a new idea, but rather an idea which time had come. Both the WEAG and OCCAR initiatives had been lauded as the fore-runners of an EU armaments agency, but until the main arms-producing member states were brought on board the armaments agency idea remained as unrealistic as a fully competitive armaments market in the EU. The establishment of the European Defence Agency was quickly praised as the opening of defence equipments markets in Europe, even though the tasks assigned to the agency were considerably broader and cooperation on defence procurement was not the EDA's

strongest competence. The recent confluence of three developments made this development possible.

First, the EU's role in foreign and security policy, and even in defence matters, increased considerably in the 1990s and early 2000s (Duke 2000). The linking of the EU and West European Union with the Maastricht Treaty; the establishment of the Petersberg tasks (humanitarian, peacekeeping and 'peacemaking' including combat tasks) in 1994; the organisation of the WEU-NATO relationship with the Combined Joint Task Force in 1994 and European Security and Defence Identity in 1996; and the integration of most of the Petersberg tasks into the EU with the Amsterdam Treaty set the scene for the development of a European Security and Defence Policy and the integration of most of the WEU system into the EU with the Nice Treaty, as well as the development of an EU military staff. The joint military and police actions in particular brought defence matters to the fore of the EU agenda. The need for European standardisation of equipment due to common military activities added to the pressure for a common approach to armaments. This is closely linked to the main aim of EDA of "developing defence capabilities in the field of crises management" (EDA art.5). Although this was part of the ill-fated process of establishing the Constitutional Treaty, the EDA initiative was separated from the convention and secured a separate life of its own.

At the same time, the drive toward expanding the Single Market rules has generated pressure for the modification of the armaments exemption. This took the form of the Commission's increasing focus on 'dual use' products in military hard- and software, and legal challenges to states' broad interpretations of the scope of article 296, in addition to a more general pressure for introducing real competition in the defence market. The key development is the change toward 'dual use' products, i.e. products that are designed for military use but have significant civilian applications (spin-off), or vice versa (spin-in). The increasing prevalence of dual use products means that the traditional distinction between military and civilian specification is becoming increasingly blurred, with the prospect that military specifications may be replaced with commercial standards. This in turn allows the European Commission some leeway in terms of beginning to comment on defence procurement, despite the

defence exemption (Mörth 2003). The Commission thus assumed a clear and active role in driving the extension of the single market rules to the defence sector.

Finally, the defence industry provided a significant degree of pressure for change (Suzuki 2005). Despite national differences, a series of mergers and acquisitions led to considerable consolidation of the European defence industry, and the emergence of a number of transnational defence corporations. Fears that mergers might be hampered by government rules on technical information provided part of the logic behind the LoI initiative. The emergence of two strong transnational defence companies were particularly significant: BAe Systems resulting from British Aerospace's acquisition of Marconi Electronic Systems; and the European Aeronautic Defence and Space Company (EADS) that was established in with the merger of Aerospatiale-Matra, DASA and CASA of respectively France, Germany and Spain. Consequently, as industry pressure for segmented defence procurement lessened, most of the big defence producing member states came to look more favourable on European armaments cooperation. The outcome, however, was not an armaments agency, let alone a common armaments market, but a broader and weaker defence agency.

The EDA initiative had originally been developed in the context of the Convention for a constitution for the EU, but was soon taken out of this framework and addressed by the EU heads of state. The new agency, which was launched in July 2004, is charged with four principal tasks: to harmonise military requirements and define the needs capabilities for EDSP; to promote equipment collaboration; to promote and coordinate research and development, and the work toward convergence of the member states procurement policies and promote armaments cooperation. Its policy priorities in 2006 were improving EU defence capabilities, increase spending on defence research and technology, and improve European collaboration on R&T projects. It comprises 24 of the 25 member states (Denmark having a general opt-out on EDSP).

The EDA's principal focus is thus on defence capabilities and R&T, as well as, if not more than, on defence procurement and the quest for a common market in defence products. The latter is inevitable a more long-term process. Its Armaments Directorate identifies four objectives, including cooperation on existing programmes, promoting

new cooperation, managing specific programmes (the downstream part is likely to be done by OCCAR) and disseminating best practice. To date the main initiative has been the launch of a Code of Conduct designed to increase transparency and competition in the European defence equipment market, which the EDA press release headline (EDA 2006) lauded as “the birth of European defence equipment market.” In principle the member states (or 22 of them: Hungary and Spain opted not to take part) committed to opt for the most competitive offer rather than a national supplier in defence procurement processes, even in the case of equipment that they exempt from EU public procurement rules under Article 296. However, the regime is voluntary and intergovernmental (operated by the EDA), and the EDA’s role is primarily one of reporting and monitoring the system. The focus is therefore on transparency and voluntary compliance, or ‘soft regulation’, rather than the harder regulatory mechanisms associated with the single market and EU procurement policy.

Still ‘Mission Impossible’?

The final question addressed in this paper concerns the prospects for a common armaments procurement policy in the European Union now that the EDA has been established: in the light of past experience, can the EDA be expected to be more successful than past attempts to coordinate and integrated EU arms procurement? An EDA’s press release dated 20 June 2006 proclaimed the “Birth of European Defence Equipment Market with Launch of Code of Conduct.” However, in the light of the substantial obstacles to cooperation on arms procurement that have been manifest up to this point, there are good reasons to be sceptical of the potential for rapid development of a common European armaments market. To be sure, some of the main obstacles to armaments cooperation have indeed become less significant, and the mere establishment of the EDA provides grounds for optimism, but several of the substantial obstacles identified in the first part of this paper remain.

The longest-running and perhaps most serious obstacle to a common arms market – the fact that the EU is principally a civilian organisation – has become less significant as a hindrance on the path to a common armaments policy for two reasons. First, the

EU's role in international politics has strengthened considerable since the Maastricht treaty was adopted, and been widened to include ever broader aspects of security and defence cooperation as well as missions to third countries (notably in the Balkans). The EU can no longer be identified as an 'economic giant but a military dwarf', at least not unambiguously (Duke 2000). Common security and defence initiatives have, much as neo-functionalists might have predicted, spilled over back into the single market: defence cooperation and joint action is making the EU's expectations – capabilities gap ever more salient, and strengthens the case for cooperation and standardisation of defence equipment. Second, the Commission has actively cultivated this spillover dynamic, constantly pushing for a narrow interpretation of the Article 296 exemption, for strict classification of 'dual use' equipment and application of single market rules to such equipment, as well as working to promote extension of the single market to armaments in principle. All three tactics have seen a degree of success, and the establishment of the EDA signals, at the very least, consensus around the idea of the development of a common armaments market in principle. Article 296 is hardly at risk, but the very establishment of the EDA can be seen partly as a consequence of the shifting consensus on this matter, and partly as a signal that further steps are likely to be taken.

Second, with the establishment of the EDA, the EU has overcome the bias toward the status quo that is inherent in its consensual decision making procedures and norms. The general aims of the EDA are very ambitious, and do not fall short of (eventually) a common armaments market. Even the operational programme is quite ambitious, as it covers the full range from development of defence capabilities and crisis management to cooperation on arms procurement and R&T. One hailed achievement of the EDA is the implementation on 1st of July 2006 of a Code of Conduct for military procurement shifting the "national" preference in armament procurement to "European preference" in the treatment of suppliers. Should be noted, however, that it is only non-binding and that ABC weapons are excluded together with procurement linked to national security (sic!) and that it explicitly permits buying from non-EU states such as the US. One consequence is, however, that it takes some of the steam out of the Commission's attempt to force Internal Market in this field of procurement (Mampaey 2005). The principal limit of the EDA is that it is mainly a forum for analysis, rather than a fully-fledged arms procurement agency. And there are good

reasons to be sceptical that it will turn into one in the foreseeable future, all of which are related to the long-standing challenges for defence cooperation in Europe. The establishment of a truly European defence market depends on the EDA's ability to overcome and dismantle national barriers to trade, equipment duplication and the misuse of scarce resources; something it is hardly equipped to achieve. One reason is of course the persistence of Article 296 – and only the demise of this article will demonstrate genuine willingness on the part of the member states to create an European Defence Equipment Market (Styrus 2004). An additional reason to question the prospect for a fully-fledged autonomous and effective EDA is simply its shortage of resource (and the generally low level of defence spending in the EU compared to the USA). The EDA's resources are not only limited in terms of money and manpower, but also by the member states limited willingness to grant the organization the independence required to fulfil the tasks that have been assigned to it (Rode 2004).

Third, therefore, the reasons for caution or pessimism regarding the prospects for a common European armaments policy lie in the many of the same factors that have so long limited integration and effective cooperation in this sector. The principal challenge was, and remains the diversity of the member states, their very different defence industries, and the tendency of many states to still attempt to use defence procurement as an industrial policy tool. Equally significantly, the 25 member states differ widely in military ambitions, equipment requirements and their defence equipment life-cycles. Even if agreement could be reached on common policy, the defence equipment sector is not one that changes over night; programmes generally have long life cycles. The addition of ten new member states in 2004 and the prospects for further enlargement only adds (at least quantitatively) to the problem of creating a common framework for arms procurement. Moreover, the formerly communist states also differ qualitatively from the old 14 (still not counting Denmark here) member states in terms of their armed forces, infrastructure and arms requirements (Suzuki 2005). Even among the old member states there have long been, and there remain, substantial differences between those states involved in OCCAR and the LoI initiatives, such as France, Britain and Spain, and remaining member states like Finland, Ireland or Portugal. The experience so far with OCCAR and LoI have demonstrated that there are substantial differences even within this core group, not

least with Spain taking as somewhat more positive view of offset practices. Even the more ambitious member states, like Britain and France are not unambiguous when it comes to putting programmes into practice. And there are few reasons to expect this to change, inasmuch as even if the EDA provides a framework for resolving some conflicts, the sources of conflicting interests persist.

A case in point is the very nature of the EDA, which reflects a Franco-British compromise. The EDA partly reflects London's quest for an agency that can expand European military capabilities by promoting more efficient arms procurement strategies and opening up the market; and partly Paris' emphasis on industrial development and Research & Technology policy. The French therefore scored a point with the Agency's right to launch autonomous projects. On the other hand, in the British view the EDA is more akin to a lobby group or broker that sets out to enhance defence market efficiency and defence capabilities, in close cooperation with NATO. London won a guarantee that the financial framework should be decided by defence minister by unanimous voting (International Centre for Conversion 2005). The recent scepticism of the UK to divert money to the common defence research fund established (by unanimity) by ministers in February 2006, and BAe's decision to sell its 20 per cent state in the Airbus suggest that these difficulties associated with different states' and companies' preferences have not been overcome.

Even if the British government favours moves toward a common (and more efficient) defence procurement market, the government is substantially more in favour of this in practice when it turns out to favour British industry or jobs in the country. In Britain, as in Sweden, a large number of mergers and acquisitions in the defence sector have altered the nature of companies and the definition of 'national' defence industry: from 'national' companies to companies that operate within the country. The focus is increasingly on jobs rather than on ownership (Mason 2006; Eliassen & Skriver 2002). Furthermore, in the new Defence Industry Strategy of December 2005, the British government aimed at reappropriating' the UK's technological 'sovereignty'. The UK seeks to enhance the industrial capabilities on their own territory (Defence Industrial Strategy, Defence White Paper 2005). This shift in focus can be explained partly by recent problems of technology transfers from the US to Europe, as in the Joint Striker Fighter case, but it can also be interpreted as a shift toward an attitude

that has something in common with the French procurement logic. Whether it will help generate a common European procurement strategy that involved twenty-odd member states, or merely confirm the big armaments producing states' sharing of development and production among a handful of their big defence firms, remains to be seen. In any case, substantial difference between the French and British view on defence procurement persist. London remains more interested in inter-operability and strengthening capabilities, while Paris sees the EDA as an opportunity to develop an independent European solution when the strategy of going it alone is no longer politically or economically viable.

Fourth and finally, despite the EDA initiative, the technological and financial gap between the EU and the USA remains wide. Incidents like the Kosovo war amply illustrated that the European states lack the technical capabilities that would be needed for independent and autonomous action (Adams 2000). Moreover, the trans-Atlantic market remains unbalanced in terms of both procurement power and industrial capability, but also, and more fundamentally, its openness is asymmetric. EU firms do not enjoy the easy access to the US defence market that North American firms have to the EU markets. From the US perspective this is partly a question of protecting jobs, but it also partly reflects a fundamental demand from the US government for national control over (and exclusiveness in) a number of core technologies. These problems (from the EU perspective) have been clearly evident in the most prestigious trans-Atlantic procurement programme, the Joint Strike Fighter where the US both more restricted than promised in giving European companies important parts of the "joint" production program for the fighter and at the same time rather unwilling to give the European members in the consortium full access to American technology. Trans-Atlantic relations are set to remain subject to the offset logic in the foreseeable future, and this is likely also to affect the European markets.

In short, although some of the long-standing obstacles to a common European armaments market have become less severe, all the main problems remain in one form or another. The EU may no longer be a completely civilian organisation, but defence and security policy is still a young field and is dominated by intergovernmental decisions. Moreover, the armaments exemption question remains open. New policy initiatives and organisations are generally established on a voluntary basis, and with

relatively weak instruments compared to the Commission's competencies in the Single Market. The EDA is no exception. Moreover, there is no sign that the wide discrepancy between US and EU defence spending and technology development will be reduced in the near future. Finally, the most important factor is the very different structures that characterise the EU member states' defence industries. The difference between big and small states makes the problem particularly challenging: it will be practically impossible to design a system of *juste retour* or other arrangements for an equal or 'fair' distribution of jobs and technology transfers between *all* member states without using some kind of offset logic. The smaller states are insisting on some kind of return for their defence spending, but industry is consolidating in the big states (and specialised states such as Sweden). The big states have the power and resources to attract and develop industry, and could find solutions to a 'fair' distribution among themselves over time without using 'offset'. This is much more difficult for the smaller states, at least those with more limited defence industries. The creation of the EDA has not changed this fact. For very fundamental reasons, the mission still remains practically impossible.

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