



Defragmentation in the field of European Defence Industries.

Because of Article TFEU 346 the European market in defence matter is fragmented. Indeed, in order to protect so called essential national security interests, the article provides for a derogation from the European procurement laws, voted for the creation of a performing European Common Market. In reality the article is used to protect the national market from normal competition from other European firms thus preventing the benefits for all from that greater market. Not national security but the national firms, some partly state owned, and national employment are the object of protection and this is against the spirit of the creation of the European Union and its common market.

This fragmentation of the market has as direct consequence the fragmentation of the defence industries of the same nature. Especially the larger European States, by protecting their market, maintain defence industries that normally, in one great European market, would merge into better performing entities.

In Europe at least six states maintain shipyards “capable” of building modern warships. For how many warships per year? Six? Eight? Ten? Not enough. Three types of European main battle tanks, three types of European fighter aircraft, more than twenty types of European armoured personnel carriers or infantry fighting vehicles. Surely not the best way to spend scarce funds made available for research and development. Some would say that this is not a smart approach to military equipment development and acquisition.

Fragmentation of industries is at the origin of the fragmentation in requirement specifications. When a Navy is writing the requirement specifications for, let us say a new frigate, inspiration is found in and partly provided by the national shipbuilding industry. The Navy knows what the operational justification is; shipyards know the technical possibilities and can estimate the development risks involved. Inspired by national firms the requirements defer from state to state and alignment in order to come to greater more economical, smarter orders becomes almost impossible.

Fragmentation of the defence and security market, fragmentation of the defence and security industry, fragmentation of defence and security requirement specifications is a vicious circle that prevents the market to do at the European level what the market did in greater states: come to the merging of defence and security industries into larger, better performing entities. It prevents the smarter spending of the continuously becoming scarcer financial possibilities of the Ministries of Defence in Europe.

A quote: Many European Union countries will not be able to afford key parts of their armed forces, such as air forces, in a few years unless they spend more and cooperate more closely on defense, the top EU military officer said on Wednesday. (25 sep 2012).

The “spending more” is function of the evolution of the financial crises, for the

“cooperate more closely” there is no reason or excuse for not starting immediately and defragmentation of the European Defence Industry is one important step in it.

Article TFEU 346 is to be turned around in order to create a real common market also in defence and security equipment. At the same time the article should provide a protection of that market like the US market is protected by its laws and rules. It is only at the European level that protecting essential security interests make sense. It also would be wise and smart for that common EU market to negotiate with the US market in order to break down barriers thus helping to build the transatlantic link in security and defence.

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Some related September/October 2012 mainly US quotes.

The U.S. Air Force said on Tuesday it was optimistic about Boeing Co's work on the new \$51.7 billion KC-46 refueling tanker program but remained vigilant about possible problems, even as officials examined an initial possible export request.

When rivals gang up, it is natural to seek allies yourself. Despite this, don't expect America's big defense companies to merge in the face of EADS's and BAE Systems' potential deal.

Despite several years of escalating diplomacy and warnings, the U.S. is making little headway in its efforts to tamp down aggressive Chinese cyber attacks against American companies and the government.

Privately-owned computer networks remain vulnerable to cyber attacks, and many U.S. companies are not doing enough to protect them, Deputy Defense Secretary Ashton Carter said on Wednesday.

BAE Systems & EADS pending merger

Britain's BAE Systems and the pan-European EADS last week disclosed they're discussing a union to create a \$95 billion titan that would be the world's largest aerospace and defense company.

Financial Times) BAE Systems has warned it will walk away from its proposed 35bn tie-up with EADS if the deal waters down its special relationship with the Pentagon.

... The view that the Europeans do not want to even consider a new, common security strategy means that European governments might squander the benefits of a BAE-EADS merger. In Britain, fears are growing that the BAE-EADS deal would orient the British military industry away from the United States and toward Europe, endangering the special relationship.

(Wall Street Journal) Government officials negotiating terms of the proposed merger of Britain's BAE Systems and Airbus parent European Aeronautic Defence & Space Co. remain deadlocked over critical issues including state ownership stakes and the location of the combined company's headquarters, according to several people close to the talks

The British and American Governments will meet today in a last-ditch attempt to save a controversial merger to create the world's biggest aerospace and defence company. Philip Hammond, the Defence Secretary, will meet his US counterpart, Leon Panetta, in Brussels as he strives to secure Washington's support for the £28 billion merger of EADS and BAE Systems.

(Fort Worth Star-Telegram) Bell Helicopter Chief Executive John Garrison on Tuesday joined the chorus of defense industry executives sounding the alarm about the likely consequences if Congress doesn't act by early January to block huge defense spending cuts from automatically taking place.

BAE Needs EADS. There's No Serious Alternative

(London Times) In announcing that it was in talks with EADS, the European owner of Airbus, BAE Systems opened a Pandora's Box.

(Wall Street Journal) The boards of Airbus parent European Aeronautic Defence & Space Co. and British defense giant BAE Systems PLC met late Tuesday to discuss their proposed merger before a critical deadline, as senior European officials cited progress in government talks on how the deal would be structured.

(Wall Street Journal) A deal to create the world's biggest aerospace company, three months in the making, died in a three-minute phone call.