



Autonomy without autarky: An EU ‘roadmap’ for security of supply

by Daniel Fiott

The disruption of the defence supply chain and the inability to replace or reproduce equipment: a nightmarish prospect for any military planner. To allay such fears, states have, whenever possible, sought to lower dependence on third-country suppliers by favouring national industry. Yet complete autarky is impossible to achieve in today’s globalised defence market. Consider, for example, the fact that British defence firm BAE Systems sources its components and services from over 20,000 suppliers across the world on an annual basis.

The globalisation of defence markets, technological change and rising costs of equipment mean that self-sufficiency comes at a high price. Maintaining a predominately national supplier base may also be risky from a strategic perspective, as this could significantly reduce the pool of technologies and capabilities available to military planners. In many cases, the most effective equipment can be found in third countries. Therefore, autarky does not automatically equal greater autonomy.

An EU way

In Europe, security of supply has traditionally been the sole interest of individual EU member

states, but, following the December 2013 European Council on defence, it was decided by heads of government that an EU-wide security of supply regime should be developed. The European Commission and European Defence Agency (EDA) have now been tasked with designing a security of supply ‘roadmap’ in time for the June 2015 Council on defence.

The necessity of putting in place an EU-wide security of supply regime has emerged as a result of the global economic crisis and the need to retain and extend Europe’s industrial competitiveness *vis-à-vis* emerging economies. While there is still some way to go until the Commission and EDA present their ‘roadmap’, it is worth looking at how the work is developing in order to gain an insight into the likely shape of the regime and assess its potential implications.

The first challenge is putting in place a regime that all member states can subscribe to. While all acknowledge that security of supply is essential, there is little consensus on the approach required to achieve it. Some seek strict oversight, others wish to adopt a *laissez-faire* approach – and many are somewhere in between. For example, of the thirteen EU countries which have submitted information on national legislation on the EDA’s Security of Supply Portal, only five states integrate



security of supply policies into mergers and acquisitions and only eight integrate such policies into foreign investment deals.

Should a security of supply regime follow an emphasis on maintaining open markets and ensuring competitiveness, or should it follow an insistence on greater protection and a 'buy European' ethos? Add to these approaches various shades in between, the difficult balancing act facing the Commission and EDA when designing an EU-wide regime becomes apparent.

A bumpy road?

The second challenge relates to governance: just as member states have differing opinions about how to achieve security of supply so to do the Commission and the EDA – even though, like the member states, they share a similar definition of what this means.

The Commission has underlined the primacy of EU law in defence-industrial matters. It stresses the importance of the EU's defence procurement directive (2009/81/EC) and its emphasis on diversifying the defence-related supplier base, involving more small and medium-sized enterprises (SMEs) in procurement programmes and cooperation with non-traditional suppliers (mainly from the commercial sector). In essence, the Commission seeks to use the power of EU law to defragment defence markets in Europe.

In contrast, the EDA prefers a more voluntary and – unlike EU law – non-binding approach which offers member states a more flexible set of policy instruments. This is reflected in its stewardship of the EU's existing security of supply regime – the Framework Arrangement for Security of Supply (updated in November 2013) and the Code of Conduct on Prioritisation (adopted in May 2014).

Reconciling these two different approaches may pose a serious challenge. The Commission's emphasis on dual-use technologies and commercial SMEs may well lower overall defence costs, but it may be worth examining what the long-term impact of greater commercialisation on the defence industry could be. Surely, once the defence supply chain has been extended through greater involvement of the commercial sector, security of supply risks may increase. Finding a middle ground between open markets and regulation is clearly no easy task.

Indeed, this combination of various interests may inevitably result in a pragmatic EU-wide regime. As a preliminary observation, such a regime could

– in line with EU law – stress the importance of market openness. To temper openness, however, the regime could also favour an assessment of the control of industrial and technological assets by non-EU governments and firms operating within the Union. The Commission may also highlight the importance of monitoring the supply of key defence-relevant raw materials such as rare earth metals.

A tailored regime

This preliminary sketch of a security of supply regime raises important questions. In terms of market openness, there would perhaps be no need for any further EU regulation: the Commission's willingness to ensure that member states adhere to EU law should suffice. In terms of protection, however, it is unclear how the Commission could go about monitoring non-EU investments in Europe's defence sector – does it seek to instil a common approach across the EU and, if so, how would it achieve this without direct intervention in national policies?

Beyond the ultimate form of any EU-wide regime, however, lurks a more crucial point. Much political bargaining can be expected in the run-up to the June 2015 Council meeting, and there is a danger that member state and institutional interests may crowd out industry. As is the case with the commercial sector, defence firms are well placed to gauge security of supply risks in the market place and already invest vast amounts of financial and human capital into supply chain management.

Accordingly, any EU-wide security of supply regime cannot simply reflect institutional and/or national interests. Overall, more emphasis could be placed on what the defence industry – as the front-line actors in Europe's defence markets – can contribute to the design of the regime. In this spirit, the Commission and EDA could serve as important intermediaries between industry and member states. In this way, these institutions may be able to make a stronger case for EU autonomy whilst tempering any impulse towards autarky.

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