

Conference on Transatlantic Defence Industrial Cooperation

Challenges and Prospects

Brussels, Belgium - Friday, 18 July 2003

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Left to right: Welcoming remarks by the Executive Director of the Transatlantic Center of the German Marshall Fund of the United States, Mr. William Drozdiak; NATO Secretary General, Lord Robertson; NATO Assistant Secretary General for Defence Investment (photo NATO)

NATO and the Transatlantic Center of the German Marshall Fund of the United States are co-sponsoring a high level Conference on July 18, designed to explore key issues affecting defence industrial cooperation across the Atlantic. The Conference will take place at the Résidence Palace, 155 Rue de la Loi, in the centre of Brussels, commencing 0900 hours.

The Secretary General of NATO, Lord Robertson, will deliver the keynote address, to be followed by a high-level US panel consisting of US Assistant Secretary of State for Political-Military Affairs, Mr. Lincoln Bloomfield, and US Deputy Under-Secretary of Defense for Technology Security Policy and Counter-Proliferation, Ms. Lisa Bronson. The two speakers will assess the status of the current Administration review of US export licensing and technology transfer policies.

An industry panel, consisting of Mr. Robert D. Bauerlein (Boeing), Mr. Thomas M. Culligan (Raytheon), Dr. Tom Enders (EADS), and Mr. Rick Kirkland (Lockheed Martin) will give the views of U.S and European defence industry. Other speakers later in the programme will include Dr. Simon Serfaty of the US Center for Strategic and International Studies, Professor Ethan Kapstein of the INSEAD Business School, Fontainebleau, Messrs Servolle, O'Brien and Jonge Poerink from the NATO Industrial Advisory Group and Ernst Van Hoek from the Western European Armaments Group.

AGENDA

- 9.00- 9.15 Welcoming remarks by the Executive Director of the Transatlantic Center of the German Marshall Fund of the United States, [Mr. William Drozdiak](#), and the NATO Assistant Secretary General for Defence Investment, [Mr. Robert G. Bell](#)
- 9.15-9.45 Keynote Address by the [NATO Secretary General](#): The Key Role of the Defence Procurement Sector in the Enhancement of Defence Capabilities
- 9.45- 10.00 Questions and Answers with the NATO Secretary General
- 10.00- 11.00 Status of U.S. Inter-Agency Review of US Export Licensing and Technology Transfer Policy:
- Introduction by moderator Mr. William Drozdiak
 - U.S. Assistant Secretary of State for Political-Military Affairs, [Mr. Lincoln Bloomfield, Jr.](#)
 - U.S. Deputy Under-Secretary of Defense for Technology Security Policy and Counter-Proliferation, [Ms. Lisa Bronson](#)
 - Questions and answers
- 11.15- 12.30 Industry Panel: Views of U.S. and European Defence Industry:
- Introduction by moderator Mr. Robert G. Bell
 - [Mr. Robert D. Bauerlein](#) (The Boeing Company)
 - [Mr. Rick Kirkland](#) (Lockheed Martin)
 - [Mr. Thomas M. Culligan](#) (Raytheon Company)
 - [Dr. Tom Enders](#) (EADS-Germany)
 - Questions and answers
- 12.45-14.30 Working Lunch Theme: “Renewing the Transatlantic Partnership” (based on the CSIS Report of May 2003) Introductory Comments by the Director of the Europe Programme at Center for Strategic and International Studies (CSIS), [Mr. Simon Serfaty](#).
- 14.30-15.30 Perspectives from the NATO Industrial Advisory Group (NIAG) and the National Armaments Directors of the Western European Armaments Group
- Introduction by moderator Mr. Robert G. Bell
 - Panel: [Mr. Guy Servolle](#), Chairman of the NATO Industrial Advisory Group,
 - [Mr. David O’Blenis](#)
 - [Mr. G. Jonge Poerink](#), Co-Chairs of 2002 NIAG Report on Trans-Atlantic Defence Industrial Cooperation
 - Introduction by moderator [Mr. Ethan Kapstein](#), Professor of International Security Studies, Insead
 - Address by [Mr. Ernst van Hoek](#), Chairman of the WEAG NADs
 - Questions and answers
- 15.30-15.45 Closing Statement by the NATO Assistant Secretary General for Defence Investment

Keynote address by NATO Secretary General, Lord Robertson

Mr. Drozdiak, Mr. Bell, Ms. Bronson, Mr. Bloomfield,
Ladies and Gentlemen

It is a great pleasure to be here. Let me begin by thanking Bill Drozdiak and his Transatlantic Center for their fine hospitality in co-sponsoring this Conference. I remember with pleasure, Bill, the Conference that we put on here in October last year. I hope that this second Conference heralds a long and fruitful relationship between NATO and your Center in the future.

Let me begin by quoting to you from the European Union's new strategy paper, which highlights terrorism, the proliferation of weapons of mass destruction, failed states and organised crime. The EU's paper concludes by saying:

"Taking these different elements together – terrorism committed to maximum violence, the availability of weapons of mass destruction and the failure of state systems – we could be confronted with a very radical threat indeed".

I could not put it better myself. And I know that Javier Solana has no trouble endorsing NATO's own assessments. We may use different words. But we are saying – and meaning – the same thing.

The EU paper goes on to state: "We need to develop a strategic culture that fosters early, rapid, and when necessary, robust intervention."

Could Donald Rumsfeld or Tommy Franks have been clearer?

So let there be no doubt: when it comes to a common strategic vision, Europe and North America are still singing from the same song sheet. Which is one good reason why NATO is still in business, and more active than ever.

In the Eastern and Western Mediterranean, NATO warships are cutting the flow of people and supplies to Al Qaida. In Afghanistan, NATO is taking over the lead in ISAF. Not for theological reasons. But because it makes sense. And we are moving to support the forces of our Polish ally in Iraq.

None of these operations surprise anybody anymore. The fact that NATO will soon be keeping the peace in a country which borders on China barely makes the newspaper. But these operations prove that NATO has definitely moved beyond being simply Europe's beat cop. The Alliance is now carrying out operations wherever it is required.

What does this mean? First, it means that NATO has become a unique asset for the international community. No other organisation can provide and command these kinds of forces, when needed. But it also means that we face an unprecedented challenge to muster, train, equip and sustain these forces for operations in theatres very different from those we had planned for in the past.

We are already tackling this challenge head on. For example, the Prague Capability Commitments are being delivered. We have good news to report in areas such as strategic airlift, sealift, air tankers and precision guided weapons. And we have certainly made much quicker progress than I had expected in streamlining NATO's command structure and setting up the cutting-edge NATO Response Force.

We are making welcome progress on other fronts. The new Transformation Command will enable the Europeans to tie into the dramatic changes in U.S. high-technology capabilities evident in the Iraq war, while at the same time feeding in their own experience in other military fields.

The completion of the Berlin Plus arrangements earlier this year has put down the foundations of a genuine strategic partnership between NATO and the European Union. We have together launched the first Berlin Plus operation in the former Yugoslav Republic of Macedonia. With the EU, we are pushing ahead to close the transatlantic capabilities gap.



Overall, NATO and the EU must build on this success, using the linkages so painstakingly agreed to cooperate across the whole spectrum of shared interests, not just on Balkans crisis management.

But there remains a lot of hard work still to be done. We in Europe seem slow in waking up to the reality of today's strategic environment. We are faced with demanding commitments from the Straits of Gibraltar, through the Balkans to Kabul and Baghdad, and down into Congo. Rather a lot of real estate! Yet most European defence budgets are either stagnating, or are in decline.

We need to get across the political message that defence investment is not money wasted. Defence is the most basic social service of them all. Security is the oxygen of free peoples, the pre-requisite for society's development.

In theory, the availability of relevant resources should not be a problem for our Alliance. The 18 countries of NATO's Integrated Military Command Structure in principle declare around 250 combat brigades to the Alliance, each up to about 5000 strong. A huge figure.

But fewer than half of that number are declared deployable, and therefore useable for today's real world operations. In fact, if you subtract the U.S. contribution, together with those forces which NATO assesses to be undeployable in practice, your figure of 240 combat brigades falls to fewer than50 brigades. Quite a drop, isn't it?

But of course, the figure of 50 does not take account of the fact that troops need to be trained, rotated, and rested. If you take this into account, the number of non-US combat brigades actually available at any one time drops to around 16 brigades, or some 80,000 soldiers.

So there are no grounds here for complacency. We need more defence investment. And we need much more defence output. NATO's defence procurement community has a decisive role to play in meeting this output challenge, and your Conference today will examine a critical area of that challenge – that of transatlantic defence industrial cooperation.

Throughout the time I have been Secretary General of NATO, I have banged the drum in favour of more effective cooperation in the sphere of defence trade and industry. At a time of significant industrial restructuring, the continuation of outmoded technology transfer regimes, and of defence trade and export policies steeped in protectionism, is in nobody's interests. The excellent Final Report of the CSIS Commission on Transatlantic Security and Industrial Cooperation in the twenty first century contains one sentence which is really the bottom line of this whole debate, and I quote:

"....The most important constraints on cooperation are U.S. and European government policies ... U.S. and European governments should foster an environment that allows for closer industrial cooperation on the development of advanced military systems across the Atlantic."

In simple terms, we need governments to set up coherent processes and structures within which states can operate, and cooperate on defence.

There have already been some welcome developments in this area, such as the setting up of the Organisation for Joint Armaments Cooperation (OCCAR), and the signature by 6 European countries of a "Letter of Intent" to facilitate the restructuring of Europe's defence industry. But in my judgement, there is a major political vacuum when it comes to international transatlantic defence procurement in general, and transatlantic industrial cooperation in particular.

To fill it, governments need to be far more proactive.

It is governments who should provide policy and regulatory frameworks that maximise opportunities for defence companies, to enable them to emulate the success of global commercial corporations.

It is governments who, after all, must determine the military requirements and come up with the cash to pay for them.

Industry has its own vital role to play, but there are limits to what industry itself can achieve if governments fail to actively play a facilitating role.

I have tabled proposals of my own in this sphere. They include giving priority and special, expedited handling to licenses for NATO Agencies; assigning the highest priority to processing items required to support the Alliance acquisition of the items contained in the Prague Capabilities Commitment; employing JSF-like global project licenses to these items as well; the extension of ITAR exemptions to other nations; and the negotiation of a framework agreement between the US and the six European Letter of Intent nations.

I am encouraged by the willingness of the U.S. authorities to undertake an inter-agency review of US Export Licensing and Technology Transfer Policy . This time last year the NATO Council listened with appreciation to an excellent presentation on this work given by Assistant Secretary Bloomfield and Deputy Under-Secretary Bronson – both of

whom will be speaking this morning. They will be doing so at a very important time, as "National Security Presidential Directive (NSDP) 19" is approaching a critical phase.

But as we work with our friends in the Administration to ensure the NSPD will represent an important step forward, we must not – we must not – be thrown back into reverse gear. I must in this respect register my very grave concern – over some of the defence trade-related bills recently passed by the U.S. House of Representatives in the past weeks and months.

First, there is the House-passed version of the 2004 defence authorisation bill which would unacceptably extend existing "buy American" laws. Were these to be accepted by the Senate and signed into law by President Bush, they would increase the percentage of defence items purchased by the Department of Defence, that must be made in America, from 50% to 65%.

This would destroy our Prague Capabilities Commitment and the NATO Response Force, and reinforce those who are argue in favour of military divergence between Europe and the United States. It would certainly imperil major cooperative programmes such as the Joint Strike Fighter and theatre missile defence. And it would take an axe to our efforts to improve transatlantic interoperability, which is essential to all multinational operations, whether by NATO or by coalitions.

Protectionism – and worse still, more protectionism – is not the answer. It brings huge associated penalties with it, not only in costs, but in political unity. That is why I was encouraged by Secretary Rumsfeld's July 8 letter to the conferees on the defense authorization act, making clear he will urge the President to veto this act if the House defense industry base provisions are included. I have recently written to Secretary Rumsfeld and Secretary Powell to assure them I support them 100% on this.

I am also very concerned by the export licensing bill passed in the House that would deny President Bush the authority to waive the (ITAR) provisions to implement the important US/UK defence trade Memorandum of Understanding that is close to being concluded.

But let nobody in this room conclude that I am urging an "anything goes" liberalisation of the U.S. Arms Export Control Act. I am not. We must retain those controls needed to ensure terrorists, rogue states or other potential adversaries do not gain access to technology or weaponry that would pose genuine threats to the men and women the United States and its allies send into harm's way.

But current regulatory regimes on both sides of the Atlantic were designed in a different era, and concerns have been raised that they unnecessarily make allied arms cooperation and procurement more expensive and complicated, and thereby detract from Alliance capabilities and cohesion.

Export licensing reform is not a "Europe versus U.S." issue. I strongly believe that both sides of the Atlantic stand to gain by working together towards a more level and acceptable playing field in this sphere, and I acknowledge the part the European allies have to play in getting their own act together. And I am sure that this Conference will shed light on the many opportunities we now have to make real, practical progress in this area.

The significant, high-level attendance at this Conference speaks for itself. I think there is a general recognition that we can and must make progress in this area of transatlantic cooperation, to the benefit of us all. I have no doubt as to the magnitude of the task. These are immensely complicated issues which strike at the core of national sovereignty, and of security policy.

But we need not only political vision but political courage to do what needs to be done. A dynamic, successful transatlantic defence industrial and technological base is the cornerstone of our defence and security. And it is our duty to ensure that the base remains strong and solid.

Thank you for your attention, and I look forward to what I know will be a successful and productive Conference.

CEO Panel: Views Of U.S. And Europe Defence Industry

Comments by Tom Culligan at the Conference On Transatlantic Defence Industrial Cooperation

Thank you so much for inviting me today. Let me begin by putting my comments into the context of the larger geopolitical issues that the transatlantic alliance is confronted with today.

A bridge that joins people together of diverse cultural backgrounds and common values must be built on a foundation of trust.

Issues of licensing, technology transfer and market access cannot be debated or solved overnight...unless there is an overriding sense of trust and confidence on both sides of the discussion.

The "challenges and prospects for transatlantic defence industrial cooperation," the title of this conference, is being tested at the moment by disagreements in the broader geopolitical context of our alliance.

All of us here in this room carry a special responsibility...to create an enduring spirit of cooperation - not just in the mechanics of regulatory governing - but in the purest sense...to advance our common values...and to ensure that our bond of mutual protection is forever, and continually, strengthened.

Just last week the United States Senate voted 98 to zero to urge President Bush to seek help from NATO, and the United Nations, to provide direct military support to restore security and stability in Iraq.

The Washington Post reported that 19 nations currently have troops in Iraq, 19 are preparing to send troops, and 11 more are considering it...against a backdrop of 10 to 25 attacks against allied troops every day.

As we work together to shape a defence industrial environment that is more conducive to cooperation, we can neither ignore these realities nor work around them.

For example, relative to licensing in the post 9/11 era, there has been increased scrutiny by the U.S. government.

There is anecdotal evidence that some U.S. agencies are hardening their positions as a result of political disagreements within the alliance over Iraq.

In an environment where simple licensing requests can take up to one year for approval, and policy changes can drag on for many years, all of us here today must be a force for broader transatlantic cooperation... above and beyond pure industrial cooperation, if we are to succeed.

To be sure, there are many underlying issues that need to be resolved:

- *Reciprocal, inclusive access to one another's markets.*
- *Adequate market size on both sides of the Atlantic.*
- *A reasonably liberal technology transfer environment.*
- *The need for common programs, joint ventures and business alliances.*
- *And much more.*

I'll spend the balance of my time providing a Raytheon context.

Today Raytheon has more than 3,000 people in Europe. We do more than \$1 billion in business in Europe each year.

Raytheon Systems Limited in the United Kingdom is a complete business... with manufacturing, design and engineering...with the ability to start from scratch and create products from the ground up...or to re-design a U.S.-made product to fit a unique European requirement. In the world of Raytheon, we call such operations our "global companies."

Our European presence includes:

Raytheon Marine in Germany, one of the world's leading manufacturers of integrated bridge systems and nautical equipment.

Raytheon Microelectronics in Spain, a modern high capacity factory.

We have a 49% stake in Indra ATM of Spain, a joint venture to pursue air traffic management systems around the world.

We have ten sales offices on the continent with a headquarters in Brussels.

Another 1,300 employees make up our joint venture with Thales, called ThalesRaytheon Systems, an equally-owned transatlantic joint venture with diverse C4I, security and battlefield radar capabilities.

Raytheon has been doing business in Europe for more than 60 years.

Our heritage, in fact, dates back to the early days of World War II when Raytheon engineers worked with the British to develop radar.

So we have a lot of history in Europe...and a lot at stake in Europe.

To put it into context, more than half of all Raytheon licensing requests in 2002...were to do business with Europe.

While only 1% to 2% of those requests were ultimately denied, there is still room for improvement...to make restrictions more reasonable and to lessen the turnaround time.

The U.S. Administration is seeking industry support on a range of export initiatives...to better rationalize the process, including a review of the munitions list to remove overly restrictive content.

Licensing is particularly difficult in certain areas, for example to release system software...or to exchange manufacturing "know-how."

The ongoing Bush Administration initiative known as NSPD 19, noted previously, could result in Congress making a welcome change in the Arms Export Control Act.

It's imperative that industry continue to play an active role in rationalizing the licensing process.

Last year, for example, 39 U.S. CEOs—including Raytheon's—wrote to President Bush to urge the Administration to streamline U.S. export controls and establish bilateral agreements with six U.S. allies who make up the majority of our defence exports.

If a liberal technology transfer environment is the goal, then alternately there's a sense in the U.S. that the European security and defence policy has an implicit industrial tail.

European offset requirements, for example, are growing each day while the timeline for a company to achieve them is shrinking.

For example, Raytheon has more than \$2 billion in offsets currently owed to European businesses and agencies, covering some 50 obligations—and the list is growing.

Relative to market size, there are some obvious disparities.

It is estimated that the U.S. defense budget will grow to \$484 billion by 2009, a huge increase. The U.S. has urged greater European investment, and a more active role, in defence. Reciprocal and inclusive access, something all of us desire, has been slowed by old suspicions and concerns...some inflamed by recent world events.

On the U.S. side, the DoD has shown some willingness to "buy European."

BAE Systems of North America, for example, has experienced success.

On the European side, intra-European armament agreements may diminish the ability of U.S. companies to compete...there is at least the appearance that the deck could be stacked. All of us in government and industry must work to prevent any new walls from going up...walls that could be counterproductive to our collective interests.

Among the solutions to build the transatlantic bridge are common programs, common research and development, joint ventures and greater business alliances.

The Rolling Airframe and Evolved Sea Sparrow missiles are good examples of successful common programs between U.S. and European industry...but there should be more.

France and the U.K. have well-defined research and development objectives, much of it compatible with the U.S...in areas of remote sensing, C4I data fusion, optics, unmanned vehicles, chem-bio detection and guided weapons.

A further definition and funding of European R&D would provide fertile ground for transatlantic cooperation...given the right business deals and regulatory approval.

While a label that says “made in the USA,” or “made in Europe” may be appealing to some...we must continue to find ways to put a stamp on our products that says “made by the allies.”

The ThalesRaytheon Systems joint venture is the kind of alliance that can break down walls and provide a foundation for common goals and objectives.

JVs can pry open markets...and allow the parent companies to gain solid footholds.

Recently, our TRS JV won the Battle Control System contract in the U.S....and continues to work on the ACCS program in Europe.

JVs can provide a platform for unique technology and program integration.

Of course there are challenges to transatlantic JVs...challenges not of simply overcoming, but of leveraging our cultural and language differences^{3/4}and turning them into strengths.

The licensing and regulatory environment to set up an American-European JV in defense is still too cumbersome...the regulatory environment in many ways is overly restrictive.

So transatlantic JVs are beneficial...but not easy.

Raytheon’s experience with our “global companies,” those with an established on-the-ground, in-country presence, such as Raytheon Systems Limited in the U.K., where we have some 1,800 employees, requires a significant investment of resources over time.

It’s an investment that ultimately pays off.

In the last six months, Raytheon has been awarded several major new contracts in the U.K.:

To supply the Paveway IV to meet the RAF’s requirement for a new Precision Guided Bomb, or PGB...a contract valued at \$175 million.

To provide air traffic control radars at 20 sites in a \$120 million contract.

The Raytheon/Lockheed Martin Javelin was selected to provide the Light Forces Anti-Tank Guided Weapon in a contract worth more than \$450 million.

This recent string is not the product of overnight success.

It’s an example of having strong, in-country relationships...relationships built on a local presence...relationships that have matured over time.

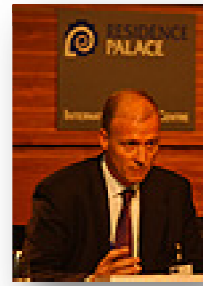
Such an investment underscores a commitment for the long haul...a commitment that will permeate any business discussion, with a government customer or an industry partner.

In the final analysis, the transatlantic bridge will be built on a foundation of relationships...a foundation of trust and confidence...a foundation of shared values...of freedom...freedom of market access...freedom from burdensome regulations and restrictions.

In the spirit of cooperation, and healthy debate, among partners, I would like to conclude with a quote from Gen. Douglas MacArthur:

“Upon the fields of friendly strife...are sown the seeds...that upon other fields...on other days...will bear the fruits of victory.”

Thank you.



1 Mr. Robert D. Bauerlein (The Boeing Company).

2 Mr. Rick Kirkland (Lockheed Martin).

3 Mr. Thomas M. Culligan (Raytheon Company).

4 Dr. Tom Enders (EADS-Germany).

“Renewing the Transatlantic Partnership” (based on the CSIS Report of May 2003)

Introductory Comments by the Director of the Europe Programme at Center for Strategic and International Studies (CSIS), Mr. Simon Serfaty.

Perspectives from NIAG & WEAG NADs



- Mr. Guy Servolle, Chairman of the NATO Industrial Advisory Group.
- Mr. David O'Brien, Co-Chair of 2002 NIAG Report on Trans-Atlantic Defence Industrial Co-operation.
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Address by Ernst A. van Hoek

Some time from now, historians will probably study the question if the process of European co-operation and integration would have started at all, without the transatlantic co-operation that has dominated the international world order in the last half of the 20th century. Clearly, in the aftermath of World-war II, the creation of NATO, the start of European co-operation in the field of coal and steel and the personal commitment of visionary leaders like General de Gaulle, Chancellor Adenauer and of course Robert Schuman have changed the course of European history for the better. Descending from these political giants to the mundane matter of armaments co-operation is a big step down. I will try to give some considerations to the challenges and the prospects of this armaments co-operation, in particular from the perspective of a European, and more in particular even, from the perspective of the WEAG view. I will end with coming back to these transatlantic aspects.

Starting with a little bit of a history: what is the history of armament co-operation in NATO and in Europe. At a colloquy that was held in February this year in Paris a first attempt was made to gain an oversight and analysis of the last 50 years of such co-operation.

Even if we all in general agree that armaments co-operation is a good thing to do, such feelings, if not underpinned by analysis and by larger strategic aims, become hollow. The real benefits in economic or military terms have only marginally been analysed. Many of the co-operative armaments projects that we know have been undertaken on bi- and tri-lateral basis. Large projects / programmes of successful co-operation are indeed very limited: in NATO AWACS could be cited as a good example. Hawk (Air Defence) is another, but limited to some eight nations. I will not dwell on the successes of NATO frigate programmes, and I am sure you can put others in the same category. Recent programmes that could be mentioned are the NH-90 and the A400M; the latter still has to prove its success. It is interesting to note that both NH-90 and A400M have their roots in the IEPG/WEAG co-operation.

One could speculate that co-operation in the field of armaments is successful as long as it stays in the pre-competitive domain. The moment industrial interests, regional interests get involved the co-operation often gets hampered and stagnates. In Europe co-operation between nations has been stimulated first in the IEPG and later in WEAG. The success ratio is rather limited. The problem of getting larger co-operation structures operational has led to smaller groupings of nations co-operating together in more limited scenarios: OCCAR and LOI are examples thereof.

The question can be posed: has armaments co-operation under a forum such as WEAG any future? The answer to such a question by necessity is a varied one: it depends on how the participants in the relevant forum, WEAG in this case, see the future. What are the ambitions of the nations involved, what are the political and economical boundary conditions. In the coming couple of minutes I will try to give you some background on this, and I will develop at least my view on this.

WEAG has a relatively short history. WEAG started in the early nineties as a successor to the IEPG (Independent European Programme Group), which was a forum where the European members of NATO would seek to enhance their co-operation in the field of armaments, with the aim to strengthen the European pillar under NATO. With the creation of WEAG the NATO roots were a little bit lost and the own European identity emphasised. A weakness of WEAG has always been that armament and armament co-operation does not exist in its own right, but that it has a function in a larger operational picture. The operational element, planning, training, mission management, has never been part of WEAG. The speculation that the WEU, of which WEAG became a part, could remedy this missing element was ended when the WEU functions were transferred to the European Union. This transfer left WEAG on its own, as a leftover in a skeletal WEU.

If armaments co-operation in its own right has only at the best a limited meaning, we can still agree that at least the development of a European Defence Technological and Industrial Base seems to make sense, in line with the original IEPG / WEAG goals. A problem for the WEAG members is however that industrial policy is not their bailiwick; industrial policy is part of the EU first pillar, a matter for the European Commission, which had little or nothing to do with defence. Also, the European Union article 296 gives individual nations the right to keep defence industrial and market issues away from the Commission, and continues treating those on a national basis. Only in the last year these matters seem to change, and change fundamentally.

This change has become apparent in a number of ways. As Nicole Gnesotto from the ISS, the previous WEU studies institute, mentions in the preface of the 59th Chaillot paper: Europe has started to fill the gap between the high road of intergovernmental co-operation for crisis management and the low road of market logic as a result of industrial restructuring. The chasm is characterised as the absence of a common European Armament policy. Attempts to fill that chasm have been undertaken by those governments that are most concerned to preserve a truly competitive European defence industry: the creation of OCCAR and the LOI initiative demonstrate this. It seems that now, with the acknowledgement that an ESDP is not only a possibility, but also an absolute requirement, the tables have been turned in a way that is irreversible. In his address to the Heads of States and Governments, titled: "A Secure Europe in a better World", EU High Representative Solana has outlined a number of principles on which not only the CFSP but also the ESDP can be further developed. Time does not allow me to go deeply into that address, but let me in any case raise some of the points that are made in it.

Security is not merely a matter for defence. Security can only be approached through a coherent process in which many instruments play a role; amongst those are defence capability as well as development of third countries, trade and the environment. This greater coherence is needed not only among EU instruments but should also embrace external activities of individual member states.

For defence matters the address concludes that there is much duplication of defence assets across the European Union. Systematic use of pooled and shared assets would reduce overheads and, in the medium term, increase capabilities.

Another aspect of this irreversible change is the decision to create a "European Capabilities Development, Research, Acquisition- and Armaments Agency". For the rest of this text I will just indicate it as the "EU Capability Agency". The creation of a European Armament Agency has been on the agenda of the WEAG since its beginning. For a variety of reasons this goal was not achieved, instead, as I indicated earlier, a more limited mechanism such as OCCAR was created. Perhaps, with the increased understanding that we have of the interrelations between armament, planning, training and so on, it is a good thing that we don't have the impediment of an existing EAA while we want to construct the wider EU Capability Agency. That such a Capability Agency will be created is practical already a certainty, the intent to create it appears in the Convention as well in the declaration of Heads of States and Governments made in Thessaloniki. It is now high on the agenda of the Italian EU Presidency. As usual with these matters however, the devil will be in the detail, in the modalities, mandate and organisation of such an Agency. One thing is however also clear from a number of documents and statements: We have learned, at least to some extent, not to duplicate for a change. It is generally agreed that existing building blocks will be (re-)used for this new Agency. OCCAR, LOI and, most important from my perspective, WEAG will provide such existing building blocks. It is important that the Agency gets a flying start, it is important that we try to achieve that. Reason is that, as many have concluded, it is time that Europe gets its act together, and as is stated in many reports (i.a. the final CSIS report), the capability gap with the United States could become unbridgeable. Therefore, if we make building blocks available, they should fit as "plug and play" units. Preparing "Plug and Play Modules" has therefore become an important item on the agenda for the Netherlands Chairmanship of the WEAG during the years 2003 and 2004.

What are the building blocks that WEAG can offer? The WEAG consists mainly of NADs, and under the NADs level three Panels: Panel I for Co-operative Equipment Programmes, Panel II for Co-operative R&T and Panel III for Procedures and Economic matters. There is general agreement that one of the most important assets is in the field of R&T. Panel II, which started in the beginning as a forum of WEAG R&T directors, has set up the EUCLID Programme. Modest in size, modest that is compared to national R&T expenditures and EU FP funds, it is still a unique mechanism, which has involved all the WEAG nations. In the 10 years that it has been running, a total turnover of more than 600 M € has been realised. While most NATO R&T work is in the realm of information exchange and network building, the EUCLID programme, up and above the network function has contract R&T as a product. Industry has from the beginning been part of this process and had a say in the programme structure. Early attempts to make R&T planning a matter for Panel II has not yet had the success that was envisioned. With the start up of the new EUROPA MoU however, with the element of transparency as one of its guiding principles, countries have pledged to make their plans on co-operative efforts available in the form of a R&T database. It is very significant that the major players in the R&T field, the six LOI countries, have agreed not to set up a separate tool for the six of them, but instead to use the tools that are available in this EUROPA MoU. When, in a year or so, this data base will be filled, the WEAG nations will have a powerful tool available for harmonizing their planning in Defence R&T. For the new Agency this will be major asset. Clearly, the discrepancy in membership between WEAG and the EU will have to be accommodated, that is, rights of in particular Turkey and Norway will have to be acknowledged, and their access to technology in the creation of which they contribute, be guaranteed.

Less visible as a worthwhile building block, but certainly one that should not be underestimated, is the Test-Facilities work. As Ministries of Defence had traditionally a large number of test facilities and proving grounds at their disposal, some 7 years ago Panel II decided to inventory all the test facilities and test installations that were used for Defence purposes. A catalogue was made and rules for mutual use of these facilities have been drawn up. With the rationalisation in the WEAG countries of infrastructure projects, the need to view such facilities on a Europe wide scale is evident. At the same time we see that technologies and the testing thereof is becoming more and more of a dual use nature. In the year 2000 an interesting MoU on testing of mine detection equipment was concluded, involving a number of WEAG nations, but also Canada and the United States and as a first: the European Union. This MoU, the ITEP MoU, has brought capabilities in this field, that have been around for years, and which are part of the European Union Joint Research Centres in the picture. It seems to me that, when we consider building blocks for the future Capability Agency, that not only the WEAG Test Facilities expertise should be made available, but we should also make an inventory of what is available in these Joint Research Centres that would support the Capability developments. Clearly, this would create large opportunities for synergy. This would also fit in initiatives that have recently been taken by the European Union, to start a preparatory action for a security research programme of the Union. A preparatory working party for setting this process in motion will meet next week. It is particularly encouraging, and in line with the policy of providing building blocks, that WEAG participates in this. I see this as an acknowledgement that, even if the financial volume of our WEAG research is modest, that it has value to offer.

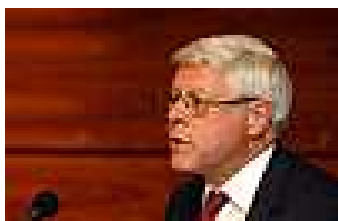
Is R&T the only plug and play module that WEAG can make available? Although we have not finalised our inventory yet, it seems that there are other elements as well. Since many years now, Panel I has worked on the harmonisation of requirements and on setting up mechanisms for planning replacements: ERS (Equipment Replacement Schedule) and ERM (Equipment Replacement Meeting). Even if the last couple of meetings of Panel I did not generate spectacular

results, we do have the system in place and we do have a suitable database. This database could be made available to NATO for similar purposes. I mentioned earlier the programmes NH-90, A-400M, I can add UAV's and other systems to the list, they all had their origins in precisely this Panel I mechanism. So, even if the current content is perhaps modest, the mechanism is worthwhile, and could be another plug and play module.

In our last Panel, Panel III, we can also identify such plug and play modules. To a large extent, the institutional matters dealing with the setting up of agencies and organisations, have their roots in this Panel III. The Panel has contributed to standardization efforts, complementary to NATO efforts, and linking it to civil European activities such as CEMS. If crossing borders in Europe in the civil field has become the most natural thing, you sometimes hardly recognise these borders, for military equipment this is not so easy. Panel III has given guidance to solving these matters, and also that is an element that could be given over just like that. In all cases, worthwhile networks have been formed, sometimes very similar to the existing NATO networks, sometimes complementary and occasionally just worthwhile in their own right. Destroying networks is easy, building them anew may take years. Also here, therefore, we think that WEAG has value to offer to these new European initiatives.

Lastly, some words about the European capability that we are helping to build. Referring back to the address by Mr Solana, the European Capabilities don't have to be a mirror image of the American Capabilities. Even if our ultimate goals in security are largely the same, our political ambition is somewhat different, as is the infrastructure underlying our respective societies. Still, following the agenda that is being developed this and the coming year, we believe that Europe can play the role that it should play and carry the corresponding responsibilities. Constructing the European Capability Agency goes in the right direction. We should not fall in the trap however to copy American approaches blindly. Thus, at both sides of the Atlantic Ocean, we should acknowledge that building fortresses is not the right way, and historically speaking, has never done any good (if fortresses were not conquered, they were taken by betrayal, or they simply collapsed from corruption at the inside). On the contrary, we should perhaps look at ways in which the European Union and the United States could complement each other, without blindly copying each other structures and mechanisms. As Solana has said: "No single country is able to tackle today's complex problems entirely on its own". And also: "Acting together, the European Union and the United States can be a formidable force for good in the world". The WEAG, by making its assets available to the future European Capability house is willing and able to contribute to this.

Thank you.



Mr. Ernst van Hoek, Chairman of the WEAG NADS

*Closing statement by NATO Assistant Secretary
General for Defence Investment, Mr. Robert Bell.*
