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**TACKLING THE ISSUE OF
FRAGMENTATION IN THE
EUROPEAN DEFENCE INDUSTRY**

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Introduction

The fragmented nature of the European defence industry has historically been and continues to be a prominent issue hindering its evolution. It is financially untenable, fostering duplicated systems and redundancies that induce unnecessary costs. It is also strategically problematic, impeding collaborative and cooperative efforts while preventing interoperability. At a time of a strategic shift in the European Union's (EU) security and defence, the time has come to capitalise on the momentum and rejuvenate the European defence industry. While the work of European institutions is promising, substantial efforts will be necessary to carry this momentum further. Fostering a culture of synchronised efforts and joint projects will be the key to overcoming the bottleneck of fragmentation, unravelling at last the full potential of the European defence industry.

The Issue of Fragmentation

Fragmentation stems from the structure of the European Union itself and the nature of the Treaties that institutionalised its foundation (Alvarez-Couceiro, 2023). Given concerns over national sovereignty, especially acute in the area of national security, negotiations on the Treaty on the European Union ensured that agency remained in the hands of Member States regarding the creation of domestic industries. Over time, this culture of developing industries nationally led to a great number of redundancies and duplications (Alvarez-Couceiro, 2023).

As such, national defence industries have historically evolved isolated from others, often producing goods in silos instead of cooperatively (Alvarez-Couceiro, 2023). This has resulted in systemic fragmentation where Member States tend to develop their own systems at the expense of European collaboration, resulting in a weaker European defence environment due to a lack of a unified strategy in defence procurement and development (Clapp, 2023a). In 2022, only 18 percent of European investments in defence programs and procurement were collaborative (EDA, 2022a; 2022b). Collaboration is the exception, not the norm. It only occurs when it aligns with national (economic) interests or contributes to consolidating strategic associations (Clapp, 2023a).

Accordingly, the structure of the European defence industry mainly follows national borders (European Commission, 2022b; Clapp, 2023a). Demand comes from national governments, and supply only covers national needs, systems and sectors (Clapp, 2023a). This is economically problematic, as companies operate in smaller markets and thus produce on smaller scales (Clapp, 2023a). Isolated defence markets hinder competitiveness, which could be achieved through economies of scale and collaborative R&D (European Commission, 2022b). Experts have estimated the potential gain of increased cooperation to be between €24.5 billion and €75.5 billion a year (Panella et al., 2023b).

Fragmentation per Subregion

Fragmentation manifests differently across Europe, with some European subregions being more or less specialised in different sectors. Western Europe holds the largest share of the European defence industry. The region holds almost as many defence companies as Northern and Central Europe combined (Béraud-Sudreau & Scarazzato, 2023). These companies are more diversified, covering on average a broader range of sectors (e.g., integrated platforms, subsystems and equipment, components), compared to their counterparts in Northern and Central Europe (Béraud-Sudreau & Scarazzato, 2023). They also tend to focus on more technology-intensive sectors than their counterparts (Béraud-Sudreau & Scarazzato, 2023).

Northern European companies tend to be more specialised, covering fewer defence sectors (Béraud-Sudreau & Scarazzato, 2023). Baltic companies focus more on niche sectors such as surveillance and communication systems, while Nordic companies are more active in the subsystems sector, specifically regarding naval equipment (Béraud-Sudreau & Scarazzato, 2023).

Central European enterprises cover less technology-intensive sectors (Béraud-Sudreau & Scarazzato, 2023). Lead companies specialise in small arms, light weapons and hardware components. The region is also proportionally more involved in the sectors of ground platforms and missiles (Béraud-Sudreau & Scarazzato, 2023).

Fragmentation per Market Segment

Beyond regional differences in Europe regarding arms production, fragmentation is also striking when looking at market segments more specifically (Olsson, 2021). Across the 27 EU Member States, twelve different types of main battle tanks are operated (in comparison to one in the United States), sixteen infantry fighting vehicles (three in the US), twelve self-propelled Howitzers (one in the US), fourteen different fighter planes (five in the US), four attack helicopters (two in the US), 25 destroyers and frigates (two in the US), ten conventional submarines and five nuclear submarines (four in the US) (Olsson, 2021). This system duplication hinders cooperation in joint military operations, equipment maintenance, and interoperability, weakening European security and defence (Alvarez-Couceiro, 2023).

Interestingly, market fragmentation is partially influenced by the large number of legacy systems that remain part of military inventories (Olsson, 2021). For instance, while there are twelve different types of battle tanks, the market is primarily dominated by one system, the Leopard 2. Although fragmentation remains a predominant issue, it is nuanced by the large share of legacy systems today (Olsson, 2021). Addressing fragmentation is thus not only about alignment of future technologies but also requires addressing the inventory structure of European armies, heavily modernising legacy systems or retiring them altogether, for instance.

European Measures to Address the Issue

The Strategic Compass published in 2022 is a direct response to the need for a European strategy in security and defence that can guide cohesive defence spending and capability development (Clapp, 2023a). Member States vouched to increase national spending on defence and focus on fostering interoperability and reducing fragmentation (EEAS, 2022). To do so, they have agreed to build on and expand tools such as the European Defence Fund (EDF), the European Peace Facility and the Permanent Structured Cooperation (PESCO). Member States have also committed to promoting defence innovation further, thereby supporting the growth of the defence industry from the outset of technological and technical development (Clapp, 2023a).

The European Commission also proposed more specific initiatives to foster greater collaboration among member states (European Commission, 2022a). They committed to establishing a 'defence joint procurement task force' to enhance coordination and cooperation regarding defence acquisitions among Member States. Moreover, they developed a short-term joint procurement instrument to cover the most urgent capability shortfalls. For the medium to long term, they proposed to develop an EU framework for defence joint procurement, with the ultimate goal of establishing an EU joint defence strategic programming and procurement that will reinforce European defence industrial capacities. The Commission also vouched to sustain R&D efforts while enhancing support from the European Investment Bank for defence and innovation (European Commission, 2022a).

Following this commitment to address the fragmented nature of the defence industry, the Commission introduced the European Defence Industry Reinforcement through common Procurement Act (EDIRPA). The instrument is meant to foster cooperation in procurement, increasing solidarity, interoperability, and efficiency of defence spending, which are all essential to account for existing and avoid further fragmentation (European Commission, 2022a). This revolutionary step towards a stronger European defence offers a new momentum to synergise procurement in Europe, rendering joint efforts the new standard instead of the exception (Angelet, 2022).

Challenges and Ways Forward

The Need for Continuous Political Will and Sustaining Momentum

While the endorsement of the Strategic Compass is a significant leap forward, its implementation will be challenging. All Member States will have to respect and enforce the commitments and targets agreed upon for the Strategic Compass to come to fruition (Clingendael & Egmont Institute, 2022). The contentious points will inevitably be economic, given rising inflation and fluctuating energy prices. This is especially relevant for the issue of fragmentation, which has notably remained prevalent due to national (economic) interests superseding multinational collaborative efforts. The continuous political will to implement the Strategic Compass and its deliverables will be challenging but critical should the Member States want to overcome the bottlenecks hindering the European defence industry's growth (Clingendael & Egmont Institute, 2022).

What is more, the window for action will not remain open forever. Economic challenges to the Union and its citizens will challenge the policy prioritisation of defence spending (Bergmann et al., 2022). Moreover, decades of under-investment in defence capabilities will not be erased in months or even years. The profoundly fragmented defence landscape and the culture of national hegemony over defence spending and planning are substantial obstacles that will be difficult to overcome. As such, budgetary commitments to bolster increasing defence investments in the short term are vital to sustaining the Strategic Compass's momentum (Bergmann et al., 2022).

The Strategic Imperative: Joint Planning, Procurement, and Development

First, increasing joint planning is key to avoid fragmentation and duplication (CSIS, 2022). Joint development of capabilities is needed at the European level, that is, across the Member States, but also at the international level between the EU and NATO (Bergmann et al., 2022; Angelet, 2022). At the European level, we ought to work towards a common compass (Angelet, 2022). European nations ought to take ownership of their own security rather than over-relying on others to do the job (Egmont Institute, 2022). Deterrence and defence ought to be increasingly driven by European powers within NATO (Angelet, 2022). To do so, a set of clear and cohesive policies and a realistic roadmap should be developed to incrementally build robust capabilities within Europe, thereby constructing a capable and autonomous European defence industry (Angelet, 2022).

At the international level, enhanced coordination between the EU and NATO should be more proactive (Bergmann et al., 2022). Although they engage in communication and strive to guarantee consistency in their outputs, duplication and fragmentation persist. Mechanisms and structures to proactively identify future projects and investments across NATO allies could be enforced to provide common grounds upon which to invest in a synchronised manner (Bergmann et al., 2022). Experts have also suggested that a division of labour between NATO and the EU would be feasible and beneficial to ensure greater efficiency and avoid redundancies in defence planning, procurement, and development (Biscop, 2018; Bergmann et al., 2022). One prominent idea is that the EU should focus more on resilience against non-military threats while NATO should continue to be the central entity for collective defence (Bergmann et al., 2022).

Second, Europe's industrial base needs to be strengthened (Bergmann et al., 2022; Angelet, 2022). Following the military assistance given to Ukraine, it is essential to replenish stockpiles of weapon systems and ramp up defence manufacturing capacities (Bergmann et al., 2022). However, the expected spending increase should be handled carefully to avoid market distortions and skyrocketing prices (Angelet, 2022). Pooling demand is most likely a crucial approach to prevent hyper-competition between nations while fostering interoperability (Angelet, 2022). Strengthening supply chain resilience by diversifying supply, investing in domestic production, and fostering joint purchasing will also be important (Bergmann et al., 2022).

To successfully bolster Europe's defence industrial base, experts suggest that mobilising the civilian industry of nation-states will be key in the short term (Bergmann et al., 2022). In the medium term, the priority should be investing in advanced manufacturing like nanotechnologies, robotics, or advanced materials technologies (Bergmann et al., 2022). In the long term, the EU should focus on industrial cooperation and integration, incentivising Member States to organise joint production to best rationalise spending, foster economies of scale, and tackle the issue of fragmentation at its root (Bergmann et al., 2022).

Third, catalysing joint procurement and development is essential to ensure coordinated investments and address fragmentation (Bergmann et al., 2022). Building on the Strategic Compass's momentum and the ensuing policy momentum following the EDIRPA proposal, joint procurement supported by a European procurement agency should eventually become the new standard (Angelet, 2022). PESCO and the EDF, alongside innovative financial programmes proposed by the Commission to encourage joint procurement, are already promising structures set in place (Clapp, 2023a).

However, while this is a good start, further financial investments will be needed (Bergmann et al., 2022). Experts propose mimicking the Next Generation EU recovery plan by borrowing from the capital markets to offer more substantial support to collaborative investments and joint procurement efforts (Bergmann et al., 2022). Beyond sheer numbers, the type of investments allocated is also critical. Some suggest focusing on high-end capabilities, supporting and expanding collaborative projects already in place, like the next-generation fighter program organised between France, Germany and Spain (Bergmann et al., 2022). They also advocate for leveraging the full potential of EDIRPA by substantially expanding its financial scope (Bergmann et al., 2022). These efforts are essential to eliminate fragmentation further and embed interoperability from the outset of defence development.

Conclusion

The issue of fragmentation continues to hinder Europe's defence industry. Following the strategic momentum propelled by the Strategic Compass, it is time to address it at its roots. The work of the European Commission is promising, developing structures like PESCO and the EDF and helping to translate this strategic shift into tangible policies like EDIRPA. While this is a promising start, more is needed. To best address the issue of fragmentation and drive the European defence industry further, joint planning, procurement and development will be critical. A realistic yet ambitious European strategy for synchronised procurement and development is essential to assist Member States in aligning their investments and collaborating on joint projects. This common strategy will have to focus on the critical bottlenecks of the defence industry, reinforcing it at its base and establishing structures to carry the collaborative imperative in the long run. Ultimately, joint procurement needs to become the new standard. This is essential to rejuvenate Europe's defence industry and address its shortcomings like fragmentation, duplication, and insufficient industrial capabilities. It will also be essential to ensure that the EU becomes a capable and leading actor in the defence landscape. While addressing fragmentation will be highly challenging, it has the potential to bolster interoperability in unprecedented ways. From defence research and development to production and procurement, an interoperable Europe is a stronger, more cohesive and independent one.

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