Approaches to Reshaping the Defence Budget: The Impact of the Financial Crisis on European and German Defence

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I. Statements on European and German Defence
“(…) if defense spending continues to decline, NATO may not be able to replicate its success in Libya in another decade”.

(Alliance’s Secretary General Anders Fogh Rasmussen, ‘The Atlantic Alliance in austere times’, Foreign Affairs, July/August 2011.)

“In the past, I’ve worried openly about NATO turning into a two-tiered alliance: Between members who specialize in ‘soft’ humanitarian, development, peacekeeping, and talking tasks, and those conducting the ‘hard’ combat missions. Between those willing and able to pay the price and bear the burdens of alliance commitments, and those who enjoy the benefits of NATO membership – be they security guarantees or headquarters billets – but don’t want to share the risks and the costs. This is no longer a hypothetical worry. We are there today. And it is unacceptable.”


"But it will also rely, in Germany in particular, on the ability to generate the political will and public support for the deployment of military resources more widely in the future in support of Alliance operations beyond our borders.”

(British Secretary of State for Defence, Philip Hammond, Berlin, May 2012)
II. The Impact of the Financial Crisis on European Defence
Defence Expenditure as a Percentage of Gross Domestic Products (Based on Current Prices)

- Lithuania: 1.1 (2008), 0.8 (2011 estimated)
- Bulgaria: 2.2 (2008), 1.4 (2011 estimated)
- Spain: 1.2 (2008), 0.9 (2011 estimated)
- Romania: 1.5 (2008), 1.3 (2011 estimated)
- France: 2.3 (2008), 1.9 (2011 estimated)
- United Kingdom: 2.6 (2008), 2.6 (2011 estimated)
- Germany: 1.3 (2008), 1.4 (2011 estimated)

Source: NATO Press Release, Financial and Economic Data Relating to NATO Defence, April 2012
Trends

1. European countries increasingly will struggle to deploy troops in NATO operations
2. Trend to reduce military personnel will lead to increasing risk of further eroding of NATO solidarity
3. Medium sized and most large NATO countries increasingly retire platforms
4. Increasing selling of (ordered) equipment may lead to spiral of downward bidding on the international market
III. The German Case
From 2011 to 2012, the German defence budget increased by 1% to €31.87 mill. It represents 10.4% of the national budget.

Midterm planning (€mill):

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>income</td>
<td>32.36</td>
<td>32.33</td>
<td>32.33</td>
<td>32.32</td>
</tr>
<tr>
<td>expenditure</td>
<td>31.87</td>
<td>32.43</td>
<td>32.03</td>
<td>31.51</td>
</tr>
<tr>
<td>Savings (roughly)</td>
<td>0.5</td>
<td>-0.1</td>
<td>0.3</td>
<td>0.8</td>
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National Defence Policies

- *Bundeswehr* Reform kick off: 2010 – 2016/2018
  - Guideline: Maintaining broadest spectrum of military capabilities at the expense of reduced ability to sustain troops for long deployments abroad
  - Breadth over depth
  - High intensity combat as benchmark for operational readiness
  - Framework nation for multinational deployments e.g. in strategic leadership structures
  - New level of ambition (strengthening infantry combat capabilities, scaling back command and support elements)
Reform Key Factors

- Smaller all-volunteer posture
- Military staff decline:
  - 220,000 to 185,000 troops
  - 188,000 to 170,000 professional soldiers
  - Up to 15,000 short term volunteer (maximum 23 months)
- Civilian staff decline:
  - 75,000 to 55,000 personnel
- 8 brigades (down from 11) with each at least 2 infantry battalions with combat capability
## Equipment Cuts (Oct. 2011)

<table>
<thead>
<tr>
<th>Type</th>
<th>Previously</th>
<th>Objective</th>
</tr>
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<tbody>
<tr>
<td>Leopard 2</td>
<td>350</td>
<td>225</td>
</tr>
<tr>
<td>Tornado fleet</td>
<td>185</td>
<td>85</td>
</tr>
<tr>
<td>Transall C-160</td>
<td>80</td>
<td>60</td>
</tr>
<tr>
<td>Eurofighter</td>
<td>180</td>
<td>140</td>
</tr>
<tr>
<td>Puma</td>
<td>410</td>
<td>350</td>
</tr>
<tr>
<td>NH 90</td>
<td>122</td>
<td>80</td>
</tr>
<tr>
<td>A 400 M</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Tiger Helicopter</td>
<td>120</td>
<td>40</td>
</tr>
</tbody>
</table>
German Defence Industry Basics

- More political than economic factor (about 2.5% of GDP)
- National market dominated by German enterprises
- German industrial landscape characterized by huge number of small and medium-sized enterprises (SMEs)
- Compared to SMEs in other countries many of German ones accessed international market
- German defence industry depends on the government
German Defence Industry in Light of the Financial Crisis

- German defence industry still not hit hard as some orders are backlogged
- Communication between industry and MoD has become difficult
- Public scrutiny arises (i.e. secret tank deal with Saudi Arabia)
- Focus on domestic market remains but looking towards new markets in MENA-Region and Asia also
IV. The German Role in European Defence

First Attempts in the Framework of Cross-Border Collaboration
Important Initiatives in Pooling & Sharing on EU Level I

- **Weimar Triangle** (since 1992)
  - Germany, France, Poland
  - Aims: battle groups, capacity building, permanent civil-military ability of planning and leadership

- **NORDEFCO** (since 2009)
  - Denmark, Finland, Norway, Sweden
  - Aims: Common training, sharing roles, common equipment procurement

- **Lancaster House Treaty** (November 2010)
  - France, United Kingdom
  - Aims: concrete measures for different themes (e.g. shared use of aircraft carriers and nuclear research institutions)
Important Initiatives in Pooling & Sharing on EU Level II

- Visegrad Four (since 1991)
  - Poland, Hungary, Slovakia, Czech Republic
  - Aim: deepening cooperation at defence level

- Franco-German defence cooperation (since 1963)
  - Germany, France
  - Aim: deepening cooperation at defence level

- South-east European defence ministerial process (since Oct. 2009)
  - Bulgaria, Greece, Rumania, Cyprus
  - Aim: deepening cooperation at defence level
Important Initiatives in Pooling & Sharing on EU Level III

- Nordic-Baltic pact (since 2010)
  - Germany, Poland, United Kingdom, Iceland, Netherlands, Baltic states, NORDEFCO states
  - Aims: common training, equipment procurement

- German-Italian pact (2011)
  - Germany, Italy
  - Aims: Cooperation in submarine boat technology, precision ammunition, pilot training

- Leadership of Ghent Initiative (since 2010)
  - Leading nations: Germany, France, Finland, Ireland, United Kingdom, Italy
  - Implementing projects for efficient pooling & sharing (but 12 projects are not taken forward)
New Approaches in Smart Defence on EU Level 1

a. A reinvestment pool
   – EU MoD savings through collaborative project should remain in special ‘reinvestment-pool’
   – Subsidy for joint purchases of defence equipment

b. The business case for collaboration
   – Convincing politicians of pooling & sharing through informing about potential savings

c. A market place for surplus military equipment
   – Consider transferring equipment to poorer allies
   – In exchange receiving countries agree to contract service, training and upgrade from donor countries
New Approaches in Smart Defence on EU Level II

d. Improved defence planning
   – On-site visits between NATO planners and national defence officials
     - to be enlightened by data on neighbor country’s defence
     - to be ready to identify where the countries’ equipment needs overlap or where common procurement would make sense

e. Regional capability targets
   – assigning capacity targets to clusters of countries rather than individual allies

f. Support for specializing countries
   – Identify options of countries that are interested in specialization and provide overview of present capability possessions
Recommendations for the German Role in European Defence

Defence policy:
- Developing a leading common defence strategy with France and UK with focus on division of labor and contents of European defence that integrates

Military:
- Acting as a permanent military framing nation that hardens smaller members by providing leading and mobility resources

Defence industry:
- Examining parallel domestic defence industry preferences and European openness towards division of labor in defence industry to build a coordinated and efficient European defence industry
Thank you for your attention!