

SMART DEFENCE AND DEFENCE INVESTMENT

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Let me introduce the company I'm representing: Finmeccanica is an euro 17 billion company, with almost 70,000 employees and which operates since at least 30 year in Rumenia, where we have a corporate office. And our products are operating in the country, from energy plants to the C-27J tactical airlifter.

There could not be a better time for discussing Smart Defence and Smart Investment, since governments and industries are both compelled to adjust to a financial scenario which is far from being benign for defence and security investments.

Indeed we should be forced, by necessity, to make every single euro count. And by doing that we have a real opportunity to change for the better the way defence planning and procurement is done, pushing also the industry to adapt.

Unfortunately so far this is not happening, we have to admit. NATO has recommended to coordinate the inevitable defence spending cuts across the Alliance and also suggested to take this opportunity to carry out what would be a real smart asset allocation, the "country specialization". Country specialization calls for each country to concentrate resources to build some specific capabilities, not trying to build a 360° capable complex of forces, which is, by the way, probably beyond the grasp of any NATO country, excluding the USA. Also, this could be the right moment to try to fulfill the NATO commitment to address the well known capability gaps and to try to gradually build the essential capabilities which the Alliance still lacks, totally or partially.

So far we have seen no progress in this direction, each country is proceeding alone, without even consulting with the partners. Once defence cuts have been outlined at national level, each country carries the exercise to identify which capabilities are to be defended and which are to be reduced or canceled. In many

countries we are now at the stage which see the cuts and the re-organization being executed, therefore we can sadly say that the opportunity has been lost.

As NATO feared, we are not going toward a specialization "by design", instead the inevitable outcome of uncoordinated budget cuts is the specialization "by default", which does little to address the identified NATO capability gap, nor allows the "smart spending" of the reduced available resources. In theory, by a combination of smart spending and increased cooperation, the operational output could increase and gaps could be filled, building a more integrated and complete set of capabilities to meet the security needs of 2020 and beyond. This is not happening.

Nevertheless there are some exceptions worth mentioning. In some cases NATO members have increased cooperation and strengthened defence ties, at least in a few areas. The most striking, wide ranging, strategic cooperation agreement has been signed by the two stronger NATO European countries, France and UK and its execution is in full swing. It will take time, but the envisaged enhanced cooperation is going to become a reality and is also to reverberate at industrial level. Requirements and procurement are being in many cases rationalized as a result of the political drive to cooperate. On a lesser scale reinforced cooperation is becoming a reality among Baltic states and there are opportunities also in the Balkans. But there is very little beyond that.

We could not expect any better since even in countries facing the dire prospect of massive budget cuts it appears difficult to pursue interservices enhanced cooperation and rationalization. In some cases we see that it seems preferable to forfeit a capability instead of pursuing a joint approach and save it!

Again, this is not to say that there is little prospect for improvement, quite the contrary, there are several efforts and initiatives going on at different levels. For instance the alliance is moving to play a major role in a number of fields, including missile defense, ISTAR with the AGS program, cybersecurity, special operations, strategic transportation, to mention but a few. In the past NATO accomplished several important achievements on the cooperation road: we can mention the AWACS fleet, the air policing agreements, SALIS & strategic airlift in the area of strategic transport, not forgetting the ACCS successor of NADGE.. But this is surely not enough and what is also far from positive is the slow pace of the bulk of these initiatives: the AGS bumpy ride is a show case of the difficulty of pushing forward even what is considered important and urgent by many member countries and even when there is an "a la carte" opportunity to select where and how cooperate.

There are then important efforts in the area of pool & sharing and attempts to stimulate the interest of partner countries in conducting common programs. In particular the NATO transformation command, the ACT, is being instrumental in sustaining and promoting common initiatives. And indeed out from a list of 46 candidate programs, there are 22 selected programs ready to go.

This is, no doubts, a positive development. And if you look down at the number of nations being involved in the different programs we have even more reasons to be optimistic.

But... good does not mean it can't be better.

And I feel this is the right audience to offer some ideas while being moderately provocative.

1) While the number of selected programs waiting to be started is relevant, almost two dozens, we see that the mechanism chosen to search for potential common programs is based on the willingness of member countries to be engaged in such initiatives. What is the end result? Usually countries go for what is at national level perceived as important, but without putting on the table main/core projects/requirements. Everybody can see the effect of this choosing: the list does include important endeavors, but few of them address the missing core operational capabilities which NATO has singled out and confirmed/refined in Lisbon and Chicago. What can be done to improve? It is NATO which should propose to the member nations to join arms to carry out projects that are most urgent and relevant for the whole Alliance. May be that not all of them will be subscribed? Yes indeed. But on the other hand nations will be pushed to cooperate in areas that have a higher priority and an effective impact on operational capabilities. I understand the argument that there is a need for targeting a good start and to test mechanism and procedures before going for the main issues, but indeed NATO is not a new entity nor cooperation programs are something new within the Alliance. Therefore my suggestion is to change the approach and introduce a top down process which will make possible to concentrate efforts and money in selected key areas. This is by the way fully coherent with the basic tenets of the Smart Defence idea: spending wisely the money to meet the most important or urgent needs. Yes, simple projects can deliver quick wins, but this is not what we are and we must be pursuing.

2) The second issue is...money related. While it has been always difficult to convince governments to commit funding to finance common programs, nowadays

this is even more challenging. This should not be the case, because as the number of platforms/systems being sought is being constantly reduced, common programs or off the shelf buys are often the only viable solutions to procure the needed capabilities. What can be done to improve? The solution could come from a shared approach, with NATO convincing members to commit some funding to finance the joint programs, allowing NATO to distribute them across the new common programs. Projects should be scaled up to become real programs, at least research programs, with some NATO funded "incentives". If member countries find that NATO common programs can be used to solve their own core problems... they could be convinced and motivated to provide some funding. And then to further contribute to the programs at national level. A two levels funding strategy could probably ease some of the problems that are slowing or making impossible to proceed on multinational programs at the needed speed. CNAD could also be involved in shaping the list of programs and to convince governments to fund an overall common programs initiative. EDA should also play a more relevant role. It is also clear that the industry would be required to bid competitively to win contracts and in some cases to subscribe part of the program costs. Industry is ready to cope, to share the burden, but again the projects should have a reasonable schedule, because there is a need to foresee a return for investment. Industry is also more than willing to exploit COTS technologies or to leverage on its know-how to meet different requirements, reducing non recurring costs, risks, time.

3) There is another profile which should be addressed. We all know that the European Union is struggling under the weight of the economic crisis which is affecting so many member states. With the economic and financial situation being the first priority, the defense and security dimension has lost part of its relevance. We all hope that this will be just a momentarily situation, the most since the security risks, if not the threats that the EU (and NATO) is facing are not becoming less serious only because the European economies are suffering. Quite the contrary. We have just to consider what is happening in the enlarged Mediterranean to have a clear confirmation of the increasing stability and crisis risks which are endangering EU and NATO countries. But again, if we want smart defence and the similar initiatives sponsored by the UE to succeed, than there is an even greater need to try to enhance the cooperation between the two organizations, at every level, including the funding of common initiatives, while finding ways to avoid duplications and waste

of scarce resources. My personal dream is to see in Europe the equivalent of the US Darpa carrying out R&T activities.

4) We have to consider that the European and US aerospace and defense industry is paving the way for an increased multinational cooperation and for a rationalization on the "offer" side: we have seen recently an attempt carried out by BAE Systems and EADS to merge and integrate. The fact the project has been derailed for a number of reasons does not mean that industrial rationalization is not going to happen, in Europe and in the USA as well. We just have to wait for the reduction of the US DoD budget to see a massive stimulus to consolidate the industry to a level which is compatible with the new defense market size, domestic and international. Already the industry is leading, we can mention a number of rationalizations carried out in the last few years, including the creation of AgustaWestland, which is now a reality representing three European nations and with a relevant industrial presence in the US. Finmeccanica defense electronics activities are mainly based in Italy, the UK the US and are being integrated. In the space domain, Thales Alenia Space is a good example of rationalization, not to mention the European missile house, MBDA. The industry is adapting. But the benefits of the industrial rationalization and increased competitiveness cannot be exploited if similar transformations are not being carried out at national and international levels.

With that I think to have provided enough "stimulus" for our discussion and I wish to thank you very much for your attention.

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