

stand in the way of a European free market in defense products.⁶¹

The apparent obstacle is Article 223 of the EC's founding Treaty of Rome (signed in 1957), which permits member-states to exempt defense production and trade from common EC regulations on grounds of national security. In fact, since Article 223 does not *require the* exclusion of national defense industries from the common market, the real problem is a lack of political will. At the EC Summit at Maastricht, Netherlands, in December 1991, the 12 heads of state rejected a proposal by European Commission President Jacques Delors to repeal Article 223. The reason for this hesitation is that European leaders face a chicken-and-egg problem: defense-industrial integration assumes a level of political and military interdependence for which many of them are not yet ready.

France, in particular, has opposed any European Commission involvement in regulating defense trade on the grounds that defense is a special case. French political leaders support the creation of a European defense "identity" founded on a strong defense technology and industrial base. They also believe that European economic and political integration is the key to France's future prosperity and—paradoxically—the only way France can regain sufficient economic and political weight to play the leadership role to which it aspires. But since some countries enjoy a technological edge in key defense-industrial sectors (e.g., Germany in tanks), opening up the European defense market to free competition would result in the failure of less competitive producers and a gradual drift toward an international division of labor at the prime-contractor level. DGA officials contend that because each European country has particular security requirements to which its national defense industry is geared specifically to respond, free trade in defense goods must await a common European defense policy that takes different national needs into account. In the words of SCAI official Jean Fournet, moving too quickly toward a free market "would

risk disrupting major ongoing programs and bring further turmoil to a European industry already facing upheaval in the wind-down from the Cold War."⁶²

Thus, despite the economic logic of rationalizing the European defense industry on a continental scale, the actual evolution of a common armaments market will depend on the rate of progress toward European political union. With the blurring of the line between civil and military technologies, however, the European Commission in Brussels will become increasingly involved in the defense-industrial sector through its responsibilities for mergers, trade, R&D, state subsidies, and regional policies.⁶³ In December 1990, the EC member-states agreed to consider the gradual expansion of the Community's jurisdiction in the security area, including "economic and technological cooperation in the armaments field, coordination of arms-export policy, and nonproliferation."⁶⁴ It is also likely that the growing number of cross-national alliances and mergers between European defense companies will promote consolidation of the industry, particularly if the EC member-states pool their technical and financial resources to develop the costly next generation of fighter aircraft, space vehicles, and missile-defense systems.

Given these trends, European defense-industrial integration is likely to move forward at a slow but deliberate pace. Because of the small size of the European defense market, it seems inevitable that some industrial sectors will eventually be dominated by a single multinational prime contractor with no competitors. At the subcontractor and supplier level, however, large numbers of small and medium-sized firms will continue to bid for work in a competitive framework.⁶⁵

CONCLUSIONS

In response to the sweeping changes in the security and fiscal environments, the French Government is seeking to preserve the technological competencies of its defense-industrial base while enabling French firms to play a leading role in

⁶¹ Under the 1992 internal-market plan scheduled to come into force on Dec. 31, 1992, the EC nations have pledged to abolish all internal duties and tariffs, harmonize national health and safety standards, and otherwise eliminate barriers to the free movement of goods, services, and persons within the borders of the EC. The resulting unified market of 340 million Europeans will become the world's largest single trading bloc.

⁶² "France Stands Firm on Defence," *Jane's Defence Weekly*, vol. 17, No. 1, Jan. 4, 1992, p. 26.

⁶³ Marc Rogers, "Ailing Industries May Get EC Cash," *Jane's Defence Weekly*, vol. 17, No. 7, Feb. 15, 1992, p. 227.

⁶⁴ European Council, "Presidency Conclusions, Part I," Rome, 14-15 December 1990, document No. 424/1/90 (OR.f) REV I, p. 6.

⁶⁵ "France Stands Firm on Defence," *op. cit.*, footnote 62.

restructuring defense production on a European scale. One of the primary roles of the General Delegation for Armaments (DGA) is to ensure the long-term health and competitiveness of the industrial base, even when this goal involves tradeoffs against short-term military capabilities. These priorities are reflected in the move to convert the government-owned arsenals into nationalized companies and to continue funding defense R&D at a high level despite the drop in procurement. Budgetary constraints are also forcing the French Government and the defense industry to concentrate resources on a limited number of fields in which they enjoy a competitive advantage, to diversify further into civil markets and emphasize dual-use technologies, and to enter into a growing number of strategic alliances with other European firms.

Despite the obvious differences between the political and organizational structures of the French and American procurement systems, the French experience with defense-industrial restructuring offers some useful lessons for U.S. policymakers.

Export Dependence

The French case suggests the economic and political drawbacks of overreliance on export sales to support the defense-industrial base—in particular, to help finance defense R&D. Not only has the export imperative harmed French foreign-policy interests in some cases (e.g., arms sales to Syria, Libya, and Iraq), but the recent downturn in export sales has limited the ability of French defense firms to remain at the technological leading edge.

Civil-Military Integration

In the United States, the obstacles to the greater use of commercial products and processes in the defense sector are primarily legal and regulatory rather than technological. Hundreds of U.S. laws and regulations control the way defense business is done and differentiate it from the civil sector, so that diversified firms are compelled to set up separate defense divisions. In contrast, France has no legislative, regulatory, or accounting barriers between civil and military procurement, enabling firms to use commercial practices in the defense sector. This flexibility has enabled French firms to produce military and civil products in the same factories and to rely extensively on dual-use technologies and processes, improving efficiency and reducing overhead costs.

Integrated Decisionmaking

The French Government integrates defense-industrial policy with other industrial, economic, and social policies in a systematic way to develop a broader strategic-industrial perspective. In addition to the DGA and the Ministry of Defense, the Ministries of Economics and Finance, Industry and Foreign Trade, and Transportation participate in various aspects of defense-industrial planning. In contrast, the United States segregates economic and security decisionmaking in different bureaucracies and has few mechanisms for resolving conflicts between economic and national-security interests.

Multiyear Budgeting

Although the French Parliament must approve the annual defense budget, it votes only on an overall spending envelope rather than individual line items and weapon systems. As a result, the DGA is able to ensure stable, multiyear funding for high-priority weapon systems, a task that is virtually impossible in the United States. While the U.S. political system mandates greater congressional oversight of the defense budget, multiyear defense budgets are theoretically possible.

International Arms Collaboration

France's growing commitment to collaborative armaments programs after a long period of hesitation may presage a similar increase in American international involvement. As U.S. defense procurement shrinks and defense technology becomes increasingly globalized, there will be growing incentives for transatlantic collaboration in defense R&D and production. While the integration and final assembly of weapon systems will likely remain under national control, a growing number of components and subsystems containing the best available technology will be developed overseas. Thus, the United States may increasingly procure the innards of its weapon systems from foreign suppliers, including France.

Incremental Development Strategy

During the Gulf War, the United States demonstrated its clear leadership in defense technology—the result of a massive, 40-year investment in defense R&D. Although the French defense industry lags about a half-generation behind the United States in most categories of military equipment, France has often chosen to compromise on performance in order

to limit program costs and technological risk or to develop systems suitable for export to developing nations. In the post-cold-war era, France's evolution, low-risk approach to weapons development may be more appropriate to the emerging fiscal and security conditions than the traditional U.S. approach of seeking quantum leaps in military performance at enormous cost.

In conclusion, since the late 1980s, France has faced the difficult challenge of restructuring and shrinking its defense-industrial base in response to declining defense budgets and export sales, while retaining its core design and manufacturing capabilities. Today, the United States confronts a similar difficult transition. Although some of the actions

taken by the French Government are not appropriate to the American economic and political context, U.S. policymakers can still draw some useful lessons from the successes and failures of French restructuring strategies. *Overall, France has managed defense R&D and procurement to preserve a broad-based national defense industry for the future, but at some cost to its current military capability. In contrast, the United States has managed defense R&D and procurement to obtain the best current military capability, but at some cost to the long-term health of its defense-industrial base.* As the defense industry restructures, U.S. policymakers will need to find an optimal balance between these two strategies.