

# Stop Wapenhandel

## European money for the arms industry

Wendela de Vries, May 2017

### Introduction

In May 1950, then French minister of Foreign Affairs Schuman proposed to create “*foundations for a common economic development as a first step to a federation of Europe, to change the destinies of those regions which have long been devoted to the manufacturing of war materials, of which they themselves have been the most constant victims.*”<sup>1</sup>

Economic cooperation to prevent war was the original idea of the European Community, the predecessor of the European Union. An important element of this was to control and constrain the arms industry. But today the European Union seems to have forgotten its origin. There is another wind blowing in Brussels, at the square that is named after Schuman. In recent years a great many initiatives have been developed to give the arms industry not less but more space and financial means.

An independent arms industry is part of the military power of a nation. For that reason arms trade and arms production, although economic activities, are also considered as foreign- and security policy activities, which in the European Union are still under control of the individual member states. There have been many attempts to reach a more common EU foreign- and security policy but there seem to be too many conflicting interests between member states for that. At the same time, all member states do want to maintain a strong arms industry. This cannot be done by single countries only. Therefore there is a strong lobby in Brussels for EU support to arms industries. Many big lobby organisations of the arms industry have offices in Brussels, and some individual big arms companies have direct access to the European Commission and the European Parliament.

Since the economic crisis of 2009 the arms industry has seen its order portfolio shrink. Austerity measures, also for defence budgets, decreased the demand for arms. The industry responded with a policy of more exports to non-European countries and with diversification of its production, notably for security and border control. The industry profited from the fact that, although it was EU policy not to finance arms production, exception was made for dual-use products, products for both civil and military use, for example for security and border security.

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<sup>1</sup> Robert Schuman. Declaration du 9 mai 1950

Now that the economic prospects are improving, defence budgets in Europe start to rise again, partly due to the strong push of US president Trump. Another defence budget driver is the supposed threat of Russia, although the Russian defence budget is modest compared to that of the European Union. The combined budget of Germany (\$41.1 billion) and France (\$55.7 billion) alone is already higher than that of Russia (\$69.2 billion)<sup>2</sup>

Circumstances are favorable for the arms industry. At a meeting of the Transatlantic Council in Washington Airbus CEO Tom Enders expressed the hope that the Russian actions in the Ukraine would end the downward trend of austerity measures which had been harmful for the defence industry. Of all arms companies, Airbus has the most lobbyists in Brussels<sup>3</sup>. Also helping the development a European role in armament is the political space created now that the British, traditional opponents of European military steps without the US, are retreating to their island.

### Market liberalisation for arms trade

To kick in an open door: arms are no ordinary products. Arms exports can have major impact on security and stability in the world and for that reason, arms export licenses are obligatory in European Union countries. The products of the arms industry are mostly bought by national governments. This means that the group of potential customers is limited. For military reasons governments want to support their own arms industry: in times of war, they do not want to depend on other countries. Only large countries can be military self-sufficient. Smaller countries produce only part of their weapons themselves and buy the rest elsewhere. The Netherlands for example has chosen to focus its support to its navy industry.<sup>4</sup>

Article 346 of the Treaty of the European Union states that 'any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material'.<sup>5</sup> European public procurement procedures are not obligatory for arms procurement. Member States make frequent use of this exception to favour their own arms industry. But in 2009, the European Commission (EC) defined in a Defence Package that this is only allowed in situations where a country can prove this is really necessary for its national security. If not, military purchases must be publicly tendered via a portal of the European Defence Agency (EDA), an EU agency established to support the European arms industry. The goal is 'a more competitive and efficient defence and security sector'.<sup>6</sup> In the Defence Package is also defined that Member States may no longer negotiate compensation orders for arms purchases, counter orders worth the issued arms deal. Compensation orders are notably popular in smaller countries like the Netherlands, with a small arms industry. It gives opportunity for a buying country to demand that its own industry is taken as subcontractor for a major defence contract. This, for example, played a big role in the Dutch acquisition of the JSF fighter jet (F-35), where Dutch companies have acquired a share in production and maintenance of this primarily American (Lockheed Martin) plane.

By imposing free market rules on military procurement, the European Commission seems to consider weapons as ordinary commodities. The Commission is also modifying the special rules for controlling the export of arms. Since 1998, the European Union has been following a joint policy, by now an official Common Position for the Export of Military Technology and Goods<sup>7</sup>, which compels Member States to set up a licensing system for arms exports. Each license application is

<sup>2</sup> Military expenditure by country, in constant (2015) US\$ m., 2007-2016. SIPRI 2017

<sup>3</sup> Oorlog aan de grenzen. Stop Wapenhandel/TNI 2016

<sup>4</sup> Defensie Industrie Strategie 2013 – Geactualiseerd regeringsbeleid voor de Nederlandse wapenindustrie. 2013

<sup>5</sup> Consolidated versions of the Treaty on European Union and the Treaty on the functioning of the European Union

<sup>6</sup> Towards a more competitive and efficient defence and security sector, COM (2013)

<sup>7</sup> <http://www.eeas.europa.eu/non-proliferation-and-disarmament/arms-export-control/>

checked on a number of criteria relating to human rights, security and poverty in the country that wants to buy the weapons. But by the intervention of the European Commission, individual export licenses for arms trade within the European Union are now often no longer mandatory. Increasingly, global and general licenses for multiple products and transactions are being used. With this new system, the control of arms exports is weakened and the supervisory role of national parliaments reduced.

The licensing system based on criteria for arms exports is due for much criticism. Unless there is an EU or UN arms embargo against a country, a Member State can still decide by itself whether to grant or deny an arms export license, whatever the outcome of the criteria check. Economic and military interests often are considered more important than human rights and sustainable peace. As a result, many European weapons still end up with war mongers and human rights abusers.

### Support for a strong arms industry

The European arms industry is faced with a lot of internal competition. There are many providers of the same kind of products in a limited market; for example, Europe is producing three different fighter aircraft are produced (the French Rafale, the Swedish JAS Gripen and the British/German Eurofighter). In addition, the European arms industry is facing difficulties in its competition with notably the American arms industry, which has a guaranteed huge single customer in the Pentagon maintaining an extremely high defence budget. In addition, US companies benefit from a government injection of money through the United States Foreign Military Sales Program, where allied countries receive large sums of money to buy weapons from US companies. The planned FMS budget for 2017 is \$ 5.7 billion. (The largest recipients: Israel \$ 3.1 billion, Egypt \$ 1.3 billion, Jordan \$ 350 million, Pakistan \$ 265 million and Iraq \$ 150 million). A proposal of president Trump to abolish the FMS program was stopped by the fierce resistance from both Democrats and Republicans.<sup>8</sup>

The European Commission wants to combat fragmentation of the European arms market and reduce the time-consuming arms export control. In addition, the Commission wants to support the arms industry financially. In 2011, a Defence Industry Task Force was set up to investigate what would be the best way to do this. The Task Force was led by Eurocommissioner Tajani, now President of the European Parliament. He was also the chairman of the Sky and Space Intergroup, member of the arms industry lobby group ASD. In 2013 the Task Force presented its proposals for a competitive arms industry and efficient defence market structures to the European Council: *Towards a more comprehensive and efficient defence and security sector*.<sup>9</sup>

Eurocommissioner Bienkowska (Internal Market, Industry, Entrepreneurship and SME) also pushes for arms industry policy development. She has set up a High Level Group of Personalities to advise the Commission on stimulating research in the defence sector. Of the 16 'personalities' in this advisory group, more than half are from arms industry and military research institutions. The conclusion of their report *European Defence Research. The case for an EU-funded defence R&T program*, published in 2015, is that the European arms industry needs additional funding for research. Arms production has relatively high Research and Technology (R&T) costs. Considerable investments must be made to develop products that have only a limited market. Industry cannot bear this alone, according to the report. Subsidies of 100% of research costs (where 70 to 80% are customary) are considered necessary because "due to the monopsonic nature of the defence market, industry should not be expected to co-finance"<sup>10</sup>. Where the ownership of publicly-funded research

<sup>8</sup> Senators blast plan to cut foreign military financing. Defense News 23/03/2017

<sup>9</sup> "Towards a more competitive and efficient defence and security sector" Communication of the Commission as a contribution to the European Council of December 2013.

<sup>10</sup> ASD Position paper. Considerations on the proposed EU Preparatory Action on CSDP. AeroSpace and Defence

results should be located is not yet clear.

Federica Mogherini, Vice President of the European Commission and EU Foreign Representative, provided political context for a strong arms industry. In the Military Global Strategy for the European Union<sup>11</sup>, her European External Action Service states that Europe needs a strong arms industry to be a strong military power. According to Mogherini: "The EU has always been proud of its soft power - and will remain so, because we are the best in this field. However, the idea that Europe is an exclusive civilian power does not entitle itself to an evolving reality. (...) A stronger Europe also needs investment in all dimensions of foreign policy. In particular, investments in security and defence are urgently needed. (...) The EU will systematically stimulate defence cooperation and strive for the creation of a solid European arms industry, which is necessary for Europe's autonomy of decision and action." According to the Vice President of the European Commission, Europe has to develop an independent military policy, and an independent arms industry is an essential element of this.

## Arms industry good for jobs and technology?

In addition to political and military arguments to support the arms industry, socioeconomic arguments are given. These arguments are suitable to win over sceptics from more worker-oriented parts of the political spectrum. The European Defence Agency EDA published a fact sheet stating that more arms production is an opportunities for employment growth, and that the knowledge-intensive and innovative arms industry will contribute significantly to the European technological base. EDA presents comparative research to show results of investment in the arms industry versus investing in healthcare, education or transport. The impact is, according to the researchers, surprisingly similar, but investment in arms research gives a higher GDP growth rate over the long term because the knowledge-intensive production of the arms industry has a broad impact on the rest of the economy.<sup>12</sup>

Remarkably, in a meta research on investment in the arms industry commissioned on behalf of the Flemish Parliament, researchers find said that GDP influence of investment in a specific sector is hardly measurable due to the huge amount of other factors that affect GDP. If there is any measureable effect at all of arms industry investment, the researchers found that it is rather negative or neutral than positive.<sup>13</sup>

In the Netherlands, the proportion of research in arms industry employment is 32%.<sup>14</sup> These are primarily highly skilled technical workers for which there is also great demand in other sectors of the economy. A survey commissioned by the British Campaign Against Arms Trade<sup>15</sup> compares investments in renewable energy from offshore wind and tidal flow. This sector is also knowledge-intensive and offers many opportunities for developing innovative technologies. The researchers found that the renewable energy sector can well withstand the comparison as a job engine with the arms industry.

Recent Dutch research, published in the Military Spectator, finds that more investment in Dutch military production will not provide new employment but only result in a shifting of employment opportunities from civilian to military production.<sup>16</sup>

An American study finds that each \$1million of spending on defence creates 5.8 jobs directly in

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Industries Association of Europe 2015.

<sup>11</sup> Shared Vision, Common Action: A Stronger Europe A Global Strategy for the European Union's Foreign And Security Policy [http://www.eeas.europa.eu/archives/docs/top\\_stories/pdf/eugs\\_review\\_web.pdf](http://www.eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf)

<sup>12</sup> The Economic Case for Investing in Europe's Defence Industry. Factsheet, EDA

<sup>13</sup> Economic impact of military R&D. J. Paul Dunne and Derek Braddon. Vlaams Vredesinstituut 2008

<sup>14</sup> Nederlandse Defensie- en Veiligheidsgerelateerde Industrie 2016 , Triarii 2016.

<sup>15</sup> <https://www.caat.org.uk/campaigns/arms-to-renewables/arms-to-renewables-background-briefing.pdf>

<sup>16</sup> Militaire productie en Nederlands welvaren De relatie tussen economie, militaire industrie en kennisinstellingen. Dr. E.J. de Bakker en prof. dr. R.J.M. Beeres Militaire Spectator 12/2016

defence industries and 1.1 jobs in the supply chain. In comparison, spending that same amount in wind or solar energy creates a total of 8.4 or 9.5 jobs, respectively.<sup>17</sup>

Advocates of research subsidies emphasize that the technical knowledge developed in the arms industry is extremely useful for the civilian industry and for Europe's technological competitiveness. The European Commission even claims that "every euro invested in defence yields a return of 1.6 - especially in skilled labour - research and technology and exports."<sup>18</sup> The term 'spin-off' – well known in the 1980s – turns up again: newly developed military technology gives a swing to civilian technology development. But in the Flemish Parliament's investigation it is pointed out that nowadays it is rather the other way around: the rapid development of IT for civil purposes is leading to spin-in of technical knowledge: from the civil into the military industry. A study commissioned by the European Parliament<sup>19</sup> also points at an increasing dependency of the arms industry on civilian technology. The spin-off effect of military research into the civilian sector is questionable. The same or perhaps a more targeted result might be achieved by investing directly in civilian research, rather than adapting military research to civilian purposes.

### Research financing, market uptake and easy loans

In November 2016, the Commission published its European Defence Action Plan<sup>20</sup>, an ambitious plan to help the EU to get a strong arms industry for the sake of citizen safety. Whether the safety of citizen would not benefit more from a good climate policy or from disarmament efforts is a question the Commission does not consider. The European Defence Action Plan proposes a European Defence Fund to promote research and development of arms, stimulus measures for SMEs (Small and Medium-sized Enterprises) and other arms industry suppliers, and to further liberalize the European military market. The most concrete is the Commission's announcement that the EU, for the first time in its existence, will make funding available for arms production. The Commission is setting up a European Defence Fund for which EUR 25 million has already been released from the European budget of 2017 (at the expense of other posts, because the total budget was already fixed). That amount should go up to at least € 3.5 billion for the period 2021-2027.

An important EU funding opportunity for companies are the multi-annual joint research and technological development programs, with a term of 7 years. The budget for these programs has grown significantly in recent years. The FP7 program from 2007 to 2014 had a total budget of over € 55 billion, with its successor Horizon 2020 being € 79 billion<sup>21</sup>. Very explicitly, the EU has always excluded military production from these programs. However, when the research budget for the period 2007-2014 was introduced, it was decided that dual-use products (goods with both civil and military applications) for 'security' could be funded from these budgets.<sup>22</sup> The market for security products is growing rapidly because European countries increasingly try to 'secure' their societies by technological means, such as drones for crowd and border control. Under the FP7 research program, the EU paid a total of € 1.7 billion in the 'Secure Societies' program. Most of this money went to large arms companies, which, in addition to military goods, are nowadays also offering dual-use goods to diversify their products.

When the Commission made a first proposal for Horizon 2020 in 2011, it once again assumed that

<sup>17</sup> Job Opportunity Cost of War, Heidi Garrett-Peltier, University of Massachusetts 2017

<sup>18</sup> European Defence Action Plan: Towards a European Defence Fund. European Commission - Press release, 30 November 2016

<sup>19</sup> The development of a European defence technological and industrial base. DG External Policies – EP Subcommittee on Security and Defence 2013.

<sup>20</sup> European Defence Action Plan. COM (2016) 905

<sup>21</sup> [cerneu.web.cern.ch/horizon2020/fp7-comparison](https://cerneu.web.cern.ch/horizon2020/fp7-comparison)

<sup>22</sup> [https://europeangreens.eu/athens2012/dont\\_use\\_EU\\_budget\\_for\\_defence\\_research](https://europeangreens.eu/athens2012/dont_use_EU_budget_for_defence_research)



the research and development activities to be financed should have an exclusive focus on civilian applications (art.16.2), but this appeared to be under dispute. The European Parliament's committee on Foreign Affairs came up with an amendment proposing to lift the ban on defence and security research. Only the Greens-EFA and the GUE-NGL in the European Parliament opposed the amendment<sup>23</sup> and proposed not only restrict EU research programs to civil security and peace research, but also to exclude border control and dual use. For the new research budget FP9, which will follow on Horizon 2020, an amendment was to "separate military research from civilian research into the next MFP (multi-annual framework program) because there must be two different programs with two different budgets that do not interfere with FP9 ambitions."<sup>24</sup> A cryptic wording, opening the possibility for a military research program outside FP9. The Greens and GUE/NL have tabled amendments to exclude military research. The Christian Democrats (EPPs) in turn have tabled amendments calling for an EU military research program. The last word has not yet been said.

The call for funding of arms research is for obvious reasons supported by the most prominent European arms industry lobby organization, the ASD. But ASD finds what it calls 'market uptake' even more important than extra money: the guarantee that newly developed weapons are actually purchased by European governments.<sup>25</sup> There must be a bridge between European arms financing and government procurement policies, according to ASD. One wants to avoid a debacle like the 'Eurodrone', when product development was stopped after companies already made major R&T investments, because governments failed to purchase. The Commission proposal for a European Defence Fund, which should not only have a research component but also a capacity component, is an answer to this industry concern. Member States are supposed to start directing money to this fund from which then joint military purchases will be paid. Money is supposed to come on top of already existing national defence budgets and, according to the Commission, does not have to be included in the national debt calculation.

### Investment money

In the European Defence Action Plan, special attention is paid to facilitate Small and Medium-sized Enterprises which supply the larger European arms companies (the four largest are BAE Systems, Airbus, Leonardo (formerly Finmeccanica) and Thales). The Commission wants to support them to "promote investment in the military supply chains."

For companies, especially for smaller companies, it is not easy to get bank loans. For arms companies this is not different. Therefore, the European Commission wants to support the arms industry with easy access to funding. Making the European Investment Bank (EIB) accessible to the arms industry is an important step in this process. The EIB is the bank of the European Union, owned by the Member States. Its capital comes from the Member States and is meant to co-finance projects that are supportive to EU policy goals. EIB does this by issuing bonds on the international capital market, which are a wanted product due to the bank's reliability. With the yield of the bonds, the bank can lend money without charging high profit rates.

The EIB policy objective is to lend to projects that meet high ethical and environmental standards. According to the current EIB lending criteria, activities are excluded when they relate to "munitions

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<sup>23</sup> Opinion of the Committee on Foreign Affairs for the Committee on Industry, Research and Energy on the proposal for a regulation of the European Parliament and of the Council establishing Horizon 2020 The Framework Programme for Research and innovation (2014-2020) (COM(2011)0809–C70466/2011–2011/0401(COD)) European Parliament 19.9.2012

<sup>24</sup> European parliament 2014-2019. Committee on Industry, Research and Energy. Assessment of Horizon 2020 implementation in view of its interim evaluation and the Framework Programme 9 proposal. Amendments 4.4.2017

<sup>25</sup> ASD Position paper. Considerations on the proposed EU Preparatory Action on CSDP. Aerospace and Defence Industries Association of Europe 2015.

and weapons, military / police equipment or infrastructure."<sup>26</sup> With the European Defence Action Plan the Commission proposes to remove this ethical standard. This would also open up other EIB-based financial instruments of the EU, such as the EFSI (European Fund for Strategic Investment), also known as the Juncker Fund, which was set up during the economic crisis to provide SMEs with more access to capital.

The EIB, according to its own guidelines, wants to help solve the major problems facing Europe, such as climate change and social inequality. Changing the lending criteria would further deplete the modest resources for these goals. Moreover, the EIB ethical policy is a benchmark for many commercial lenders. If the EIB should start to focus on arms production, it becomes even more difficult to convince commercial banks to exclude arms production and trade. The removal of ethical criteria from the EIB directives would mean a major deterioration.

It is unclear to what extent there is support in Europe for adjusting the lending criteria, but the interests are high and developments can go fast. The European Network Against Arms Trade is campaigning against the extension of the EIB criteria. Like the multi-year research programs, the EIB already offers the possibility of lending money for dual-use products.<sup>27</sup>

## Concluding

Of all plans to achieve more European defence cooperation recently presented by European Commission, plans to finance the arms industry are the most concrete and are implemented fast. In that way, the European Union is taking a direction contradicting its founding principles. The weakening of arms export control is adding to this worrying development. The risk that arms exports pose for peace, security and human rights is apparently considered of less importance than an efficient European arms market and the global competitiveness of the European arms industry.

Disarmament and conflict prevention are not even considered as a possible way to improve the safety of European citizens. Without asking any fundamental questions it is assumed that Europe should spend more on arms, while actually the EU's arms spending is the world's highest after the United States, many times higher than Russia and China, for example. The argument that military production is an excellent stimulator of employment and technical development is frequently used, although it is refuted in various investigations.

The opening of the European Investment Bank (EIB) to military production would be a step back for ethical banking. It will go at the expense of other EIB lending possibilities, for example for sustainable energy projects. While climate change will almost certainly lead to more conflicts in the world, and sustainable energy is therefore of great importance for the security of citizens in Europe and beyond.

In general, it is worrying that European policies to ensure citizens security are almost exclusively considered in a context of arms and military means. There is no debate about the causes of conflict and what to do about it, there is only a reactive attitude about dealing with consequences in a military way. This is probably also due to the fact that the European security policy is being developed in close cooperation with the arms industry. The European Union, which at its founding sought peace through cooperation, is about to discard its ideals.

## Other English publications of Stop Wapenhandel

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<sup>26</sup> <http://www.eib.org/about/cr/index.htm>.

<sup>27</sup> Report on the annual report on the control of the financial activities of the EIB for 2015 (2016/2098(INI) Committee on Budgetary Control 5 April 2017. Motion for a EP resolution Paragraph 33 and 35

**NATO and EU border security in the Mediterranean** – May 2017

**Border wars. How the European arms industry profits from the refugee crisis.**

Published with Transnational Institute. June 2016. Updated 2017.

**Tax evasion and weapon production ; Letterbox arms companies in the Netherlands.**

Published with Transnational Institute. December 2015

**Dutch arms trade with coalition forces in the Yemen war.** November 2015

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