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## EU-India Defence Cooperation: A European Perspective

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EU Public Diplomacy and Outreach  
in India and in the SAARC



### ABSTRACT

When looking at the European Defence and Technological Industrial Base (EDTIB) from India – where competition among global defence suppliers is fierce – there is a clear need to step up European coordination and integration. There are a number of mechanisms the European Union can put in place to stimulate a fruitful competition amongst its defence providers and prove the value of EDTIB as a whole. Additionally, EU-India security dialogue can be enhanced by boosting coordination among EU Member States. This paper provides recommendations on how industrial cooperation in the defence sector can serve as a driver to enhance EU-India defence and security cooperation.

*European Union | India | Defence industry*

**keywords**

## EU-India Defence Cooperation: A European Perspective

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### Introduction

The ongoing turf war amongst EU Member States (MS) to position themselves at a comparative advantage results in a lose-lose situation that leaves European countries out of the real game: competing with global powers such as the US, Russia, China and soon to be India. The world powers of 2040 might well include India, but not likely any one single European country – unless the EU as a whole proves its value and becomes more integrated and capable of playing a credible global policy.

There is growing recognition by European industries of the need to better coordinate and consolidate the European Defence and Technological Industrial Base (EDTIB) in order to maintain its competitiveness on the global market. And since no European country can any longer afford, alone, new defence programmes and meet all of its own requirements from purely domestic sources, there is a clear need for greater consolidation on both the demand and supply sides.

As also highlighted in the EU Global Strategy (EUGS) by High Representative/ Vice President (HR/VP) Federica Mogherini, EU institutions and Member States should facilitate this tendency and promote increased cooperation. Especially when looking at the EDTIB from India – where competition amongst major global defence players is fierce – there is a clear need for stepping up its coordination and integration. On the global scale, even the healthiest European company might face sustainability problems in the medium term.

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· Paper presented at the conference "Moving Forward the EU-India Security Dialogue: Traditional and Emerging Issues" held in Rome on 21 November 2016 within the framework of the project bearing the same name and led by the Istituto Affari Internazionali (IAI) in partnership with Gateway House: Indian Council on Global Relations (GH). The project is part of the EU-India Think Tank Twinning Initiative funded by the European Union.

There are a number of mechanisms that the EU can put in place to stimulate a fruitful competition amongst its EDTIB and prove the value of EDTIB as a whole, as competitive, innovative, high-tech and capability-driven. In addition, because the defence sector is closely interlinked with the political dimension – and given the Indian preference to purchase defence equipment through Government to Government (G2G) negotiations rather than through public procurement – the EU should also prove its value as interlocutor for discussions on defence, to partners such as India.

This paper provides recommendations on how industrial cooperation can be a driver to boost EU-India defence cooperation. Defence is indeed a major industrial European sector, directly employing about 400,000 people, up to another 960,000 indirect jobs, and generating a turnover of about 100 billion euros. In addition, India is a strategic partner of the EU, with whom it shares fundamental values, such as democracy – which is less and less valued throughout the world – and a certain view of foreign policy, without conflicting interests in the region.

### 1. An overview of the European defence market and industry

The European defence industry is one of the main European industrial sectors, fuelling innovation and growth to the wider EU economy. In 2013, the European Commission stated that with a turnover of 96 billion euros “in 2012 alone, it is a major industrial sector, generating innovation and centred on high-end engineering and technologies.”<sup>1</sup>

As such, the defence industry has a pyramid structure with relatively few large companies at the top that act as system integrators/prime contractors. They put together complex platforms and systems by integrating different products, such as sensors and weapons, while interacting with Member States’ defence procurement authorities, agencies and/or organizations such as the Organisation for Joint Armament Cooperation (Organisation Conjointe de Coopération en matière d’Armement, OCCAR) and NATO. They are supported by lower-tiers companies on the supply chain, which produce specific components and subsystems.<sup>2</sup>

The European defence industry has three main subsectors: aeronautics, land and naval. Aeronautics is the main and most profitable sector with a turnover of 48.9 billion euros and approximately 180,000 people employed in 2014.<sup>3</sup> Considering its

<sup>1</sup> European Commission, *Towards a More Competitive and Efficient European Defence and Security Sector* (COM/2013/542), 24 July 2013, p. 3, <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52013DC0542>.

<sup>2</sup> These, in turn, are supported by their own suppliers and so on, involving a large number of small and medium enterprises (SMEs) which represent the basis of the pyramid.

<sup>3</sup> ASD/AeroSpace and Defence Industries Association of Europe, *Key Facts and Figures 2014*, November 2015, <http://www.asd-europe.org/communication/publications/facts-figures>.

high level of technology and R&D costs, this sector has experienced collaborative projects between European countries with the objective of sharing the high and rising costs and to pool production orders.

In 2014, the land sector reached about 24.9 billion euros in turnover and employed around 130,000 people.<sup>4</sup> Compared to the aeronautics sector, it is less R&D intensive as demonstrated by the fact that roughly 80 percent of companies' sales are represented by defence-related and/or dual-use products whose application falls in the civilian domain (such as ammunition, sensor and security systems, and systems track/suspension components). After years of efforts in trying to consolidate this sector strongly affected by fragmentation and industrial duplication,<sup>5</sup> two of the leading European manufacturers of military land systems, the German Krauss-Maffei Wegmann (KMW) and the French Nexter Systems C, decided to merge, completing their association on December 2015. In effect, some experts argue that "only a number of functions will be pooled: cooperation in the supply chain, research and development, strategy definition, international marketing and sales, and communication" whereas "both trademarks still remain."<sup>6</sup>

Finally, the naval defence sector had a turnover of 22.5 billion euros in 2014 with about 80,000 employee.<sup>7</sup> These companies provide the full spectrum of services across the life cycle of a complex warship, from design and development to integration and logistic support. However, their relatively small market does not allow for significant economy of scale. A comparison with the US shows that the EU has 12 major warship companies versus two in the US, and that American firms are on average 3.4 times larger than in the EU.<sup>8</sup>

The presence of 28 national defence markets (soon to be 27, following the UK decision to leave the Union), each with its own regulations and bureaucracies, limits the development of the European defence industry by depressing competitiveness and preventing the exploitation of economies of scale. The lack of a fully integrated European defence market is therefore stifling the growth of the industry which underpins EU military capabilities and, ultimately, European defence policy itself.<sup>9</sup>

<sup>4</sup> Ibid.

<sup>5</sup> Generally speaking, this limits the overall competitiveness of land sector when compared to US companies that are on average 1.5 larger than EU firms – and thus can benefit from significant economies of scale. For more information see, among others, IndustriAll, *Study on the Perspectives of the European Land Armament Sector*, 31 October 2012, [http://www.industriall-europe.eu/Sectors/Defence/2012/INFF\\_E3779\\_Final%20Report\\_v02\\_clean.pdf](http://www.industriall-europe.eu/Sectors/Defence/2012/INFF_E3779_Final%20Report_v02_clean.pdf).

<sup>6</sup> Hilmar Linnenkamp and Jean Pierre Maulny, "Krauss-Maffei Wegmann-Nexter: A Rapid Integration as the Key for a Real Marriage", in *ARES Group Comments*, June 2016, p. 3, <http://www.iris-france.org/notes/krauss-maffei-wegmann-nexter-a-rapid-integration-as-the-key-for-a-real-marriage>.

<sup>7</sup> ASD, *Key Facts and Figures 2014*, cit.

<sup>8</sup> European Commission, *Commission Staff Working Document on Defence (SWD/2013/279)*, 24 July 2013, p. 4, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2013:0279:FIN>.

<sup>9</sup> Valerio Briani, *The Costs of Non-Europe in the Defence Field*, Turin, Centro studi sul federalismo, April 2013, <http://www.iai.it/en/node/793>.

Data show that Member States prefer to sustain national industry flagships and supply chains, and that they are adjusting to the financial crisis by relying on exports practices to third countries.<sup>10</sup>

Overall, despite past and ongoing efforts to consolidate and integrate the European defence industry, this sector is still affected by fragmentation, overcapacities and duplications. The defence industrial production is mainly concentrated in six European countries, namely France, Germany, Italy, Spain, Sweden and the United Kingdom, with the defence industry in these countries accounting for 86 percent of the whole European defence production.

While bigger EU MS have the largest defence industries and account for the lion's share of all EU defence R&D and R&T expenditure, smaller countries mostly operate through SMEs or defence subsidiaries of civil-focused companies (which specialize in niche capabilities and/or form part of the supply chain for either European or American primes). Innovation takes place at all levels of the supply chain, from the prime system integrators through SMEs, and their relationship is indeed symbiotic: neither can expect to thrive without the other.<sup>11</sup> In this context, SMEs' role as subcontractors or suppliers of specialized components deserves particular attention as their contribution to the European defence industry is increasing, along with their role in the defence market. It is estimated that there are more than 1,320 defence-related SMEs, accounting for between 11 percent and 17 percent share of the EU's estimated sales of defence equipment.<sup>12</sup>

Because of domestic defence budgets cuts, including public expenditure in R&D and R&T, European defence companies are pushing their exports towards non-EU markets where competition is becoming ever more fierce – notably with the growing importance of Chinese production. Moreover, it should be kept in mind that the European defence market is not able to guarantee sustainable conditions for its defence industries; therefore, the level of European “dependence” on foreign markets is bound to increase.<sup>13</sup>

<sup>10</sup> The persistence of national rules and habits in the defence sector is indicated, for example, by the following data: in 2008-2010, more than 60 percent of the contracts in military equipment was awarded to domestic suppliers, 26 percent to providers from other EU MS and 5 percent to extra-EU suppliers. In addition, some data published by EDA show that in 2012 more than 80 percent of the contracts in the defence sector were still assigned nationally, especially in the area of defence procurement. EDA, *Defence Data 2012*, December 2013, <https://www.eda.europa.eu/docs/default-source/eda-publications/defence-data-booklet-2012-web>.

<sup>11</sup> The relationship between prime contractors and SMEs is mainly based on the so-called “risk-sharing partner” principle. According to this principle, the prime contractor assigns to the lower-tier companies the responsibility to design, develop and produce a new system. The development costs are thus distributed and shared between the prime contractor and its SME industrial partners.

<sup>12</sup> Europe Economics, *Study on the Competitiveness of European Small and Medium Sized Enterprises (SMEs) in the Defence Sector*, 5 November 2009, p. 43, <http://ec.europa.eu/DocsRoom/documents/10486>.

<sup>13</sup> The developing countries, driven by healthy balance sheets, trade surpluses and financial resources, are exploiting this unbalanced situation by requiring offset agreements to create their own Defence and Technological Industrial Base (DTIB). Indeed, these countries see offsets as a

Against this backdrop, important initiatives have been taken by the EU and major European governments since the 1990s to strengthen the EDTIB and its competitiveness. Briefly, after the establishment of OCCAR in 1992 by four major European countries and the Letter of Intent (LoI) Framework Agreement signed by six major European countries in July 2000, an important step forward has been the creation of the European Defence Agency (EDA) in 2004 with the aim of contributing to the creation of a competitive European Defence Equipment Market (EDEM) and strengthening the EDTIB. Although defence remains mainly in the hands of EU MS, the European Commission has been playing an increasingly crucial and enabling role, starting with research, technological innovation and support for the competitiveness of the European defence industry. One of the most concrete examples of such involvement has been the so-called "Defence Package" (chiefly Directives 2009/43 and 2009/81) that forms the backbone of the EDEM and provides the Union with a legal instrument tailored to the specific nature of "sensitive" purchases in the defence and security sector.<sup>14</sup>

Most recently, after the release of the EU Global Strategy (EUGS) by HR/VP Federica Mogherini, there is a strong and renewed interest in the defence integration process. Outlining all the initiatives under discussion at the EU and intergovernmental level is beyond the scope of this paper. However, it is worth mentioning some proposals concerning the EDTIB. The aforementioned EUGS has underlined that "a sustainable, innovative and competitive European defence industry is essential for Europe's strategic autonomy and for a credible CSDP [Common Security and Defence Policy]."<sup>15</sup> For this reason and in line with the December 2013 European Council conclusions,<sup>16</sup> the European Commission proposed a European Defence Action Plan (EDAP) as a framework to promote the required EU policies and push for increased defence industrial cooperation.<sup>17</sup> The debate is currently open on three

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driver or stimulus for industrial development of the indigenous defence sector and capabilities, and are increasingly looking for medium- to long-term partnerships to cement relationships beyond the main purchase through the establishment of joint ventures, co-productions and licensed production. See, among others, Alessandro R. Ungaro, *Trends in the Defence Offsets Market*, paper presented at the SIPRI 17th Annual International Conference on Economics and Security (ICES), Stockholm, 14-15 June 2013, <https://ssrn.com/abstract=2386528>.

<sup>14</sup> Directive 2009/43/EC aims at simplifying terms and conditions of transfer of defence-related products within the EU. In fact, one of the obstacles affecting the market is that some Member States do not distinguish between exports to third countries (outside the EU) and transfers between Member States. This directive aims to address these obstacles by simplifying administrative procedures. Directive 2009/81/EC seeks to introduce a degree of competition in public procurement, while ensuring confidentiality of information and Security of Supply. However, it does not apply if a national government decides to rely on Article 346 of the Treaty on the Functioning of the European Union (TFEU), nor if contracts are settled on the basis of international agreements.

<sup>15</sup> European External Action Service (EEAS), *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy*, 28 June 2016, p. 46, <http://europa.eu/globalstrategy/en/node/2>.

<sup>16</sup> European Council, *Council Conclusions 19-20 December 2013*, <http://data.consilium.europa.eu/doc/document/ST-217-2013-INIT/en/pdf>.

<sup>17</sup> European Commission, *European Defence Action Plan (COM/2016/950)*, 30 November 2016,

main levels of action: (1) EU-funded defence research, innovation and technology; (2) financial and tax incentives; and (3) internal market measures to support the competitiveness of the defence industry sector.

### 2. Most prominent areas of possible EDTIB cooperation with India

With a sustained GDP growth around 6 percent in the last 5 years,<sup>18</sup> the Indian defence budget is also in expansion. In 2015/2016, India's defence budget allocation was about 40 billion dollars, an increase of nearly 8 percent over the previous year, and it will likely continue to increase at a similar rate over the next five years.<sup>19</sup> However, although the expenditure is increasing rapidly, a detailed analysis seems to suggest that the relative allocation is imbalanced towards salaries and personnel. The share of funds for procurement, R&D and testing has decreased from 34 percent in 2005 to 25 percent in 2016.<sup>20</sup> That's why spending on defence acquisition remains roughly flat in real terms and lower when compared to the 2013-14 peak, despite an increase in the overall budget.

Having said that, it is a matter of fact that India offers significant business opportunities for European defence companies. Such opportunities are also clear in consideration of the fierce competition occurring in the international defence market and especially in the Middle East, a region where the EU is entertaining strong interests in terms of foreign and security policy. According to the IHS Global Defence Trade Report released in June 2016,<sup>21</sup> Saudi Arabia and the UAE together imported 11.4 billion dollars (17.5 percent of the global total) in defence systems in 2015, up from 8.6 billion dollars in 2014, more than the imports of all Western Europe combined.<sup>22</sup> The biggest beneficiary of the strong Middle Eastern market remains the US while, surprisingly, the second tier of exporters to the Middle East is led by Canada, moving the UK to fourth place, just behind France. Germany and Russia each saw a 25 percent growth in exports to the region by a total amount of 1.4 and 1.3 billion dollars, respectively.<sup>23</sup>

India entertains a strong defence cooperation with Russia, the US, Israel and France; those countries provide the bulk of India's defence imports. India has imported over 10 billion dollars of American-made defence hardware since

<http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52016DC0950>.

<sup>18</sup> World Bank, *India GDP Growth (Annual %)*, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IN>.

<sup>19</sup> Deloitte, *2016 Global Aerospace and Defense Sector Outlook. Poised for a Rebound*, January 2016, p. 16, <http://deloi.tt/2hsu8SH>.

<sup>20</sup> Economist, "Opportunity Strikes", in *The Economist*, 16 April 2016, <http://econ.st/1qU3eHy>.

<sup>21</sup> IHS, *Record-breaking \$65 Billion Global Defence Trade in 2015 Fueled*, 13 June 2016, <http://news.ihsmarkit.com/print/node/21318>.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

2001, largely from Boeing,<sup>24</sup> while traditional exports from Russia are ships and transport helicopters.<sup>25</sup> It is no coincidence that during the recent India-Russia Summit in GOA, the two countries signed a deal to jointly produce 200 Kamov Ka-226T helicopters.<sup>26</sup> To be more specific, Moscow and New Delhi have agreed on establishing a joint venture which will part of the "Make in India" initiative. The agreement follows the inter-government agreement on "Cooperation in the Field of Helicopter Engineering" signed in Moscow during the December visit of Indian Prime Minister Narendra Modi.<sup>27</sup> Apart from that, the major deal finalized after many years of negotiation has been the 8.8 billion dollar deal to purchase 36 Rafale.<sup>28</sup> According to *Defense News*: "France is expected to invest 30 percent of the total order cost in India's military aeronautics-related research programs and 20 percent into local production of Rafale components to fulfil the mandatory offsets under the deal." Of the total reported amount, 3.42 billion euros is for the cost of the platform; another 1.8 billion euros is for support and infrastructure supplies; 1.7 billion euros will be spent to meet India-specific changes on the aircraft; 710 million euros is the additional weapons package; and 353 million euros is the cost of performance-based logistics support.<sup>29</sup>

Generally speaking, the areas of possible defence industry cooperation between European defence companies and India include the entire spectrum of military domains: land, air, naval, space and cyber – ranging from the largest and most complex platforms to subsystems, components and advanced electronic systems. The opportunities in defence electronics, for example, have been recently pointed out in a report jointly produced by Roland Berger, the National Association of Software & Services Companies (NASSCOM), and India Electronics and Semiconductor Association (IESA). As outlined by the report: "The opportunity for electronics in India stems across both stand-alone systems as well as at a sub-system level for other systems." NASSCOM and Roland Berger estimate the total market opportunity for A&D electronics for India to ranges from 70-72 billion dollars in next 10-12 years. Of this almost 53-54 billion dollars emanates from electronics spend as part of platforms (i.e. at Tier 1 and Tier 2 levels). Another 17-18 billion dollars of demand emanates from projects which are traditionally called system-of-system projects like Indian Army's Project TCS, BMS, etc.<sup>30</sup>

<sup>24</sup> See Amritt Ventures webpage: *Aerospace and Defence*, <http://www.amritt.com/industries/aerospacedefense>.

<sup>25</sup> IHS, *Record-breaking \$65 Billion Global Defence Trade in 2015 Fueled*, cit.

<sup>26</sup> Shaurya Karanbir Gurung, "Explained: Kamov Helicopter Deal between India and Russia", in *The Economic Times*, 17 October 2016, <http://ecoti.in/xe0OXZ>.

<sup>27</sup> Ibid.

<sup>28</sup> Pierre Tran and Vivek Raghuvanshi, "India Inks Deal with France for 36 Rafale Fighter Jets", in *Defense News*, 23 September 2016, <http://www.defensenews.com/articles/india-inks-deal-with-france-for-36-rafale-fighter-jets>.

<sup>29</sup> Ibid.

<sup>30</sup> NASSCOM, IESA and Roland Berger, *Defence Electronics and System Design Policy. Executive Summary: Policy Recommendations*, July 2016, p. 2, [http://www.nasscom.in/download/summary\\_file/fid/131927](http://www.nasscom.in/download/summary_file/fid/131927).



### 3. What could facilitate industrial cooperation?

The mantra of India's current government is "ease of doing business," but there's a long way to go – actually India ranks 130th in the World Bank's Ease of Doing Business.<sup>31</sup> Problems jeopardizing the current Indian economy – such as an unpredictable bureaucracy which often derails the process, corruption, unclear procurement strategy, and so on – need medium to long-term reforms. However, since 2001 India has opened its defence market to the private sector and is slowly adapting its procurement procedures, also in the effort of increasing the domestic manufacturing base. Contractors have often found themselves frustrated by opaque bureaucratic procurement processes, onerous domestic offset, work share requirements, and seemingly endless delays.<sup>32</sup> European companies that are active in the Indian market consider that the preference among stakeholders for a protectionist approach hinders cooperation. The win-win approach is not understood in its full potential, and therefore seldom applied. European industries, however, feel that some practical steps could ease cooperation, including:

- *Upgrading from offset policy to full chain production:* Moving on from offset obligations by de-linking industrial cooperation to specific programmes can stimulate European and Indian companies to benefit from the real competitive advantage of India – such as its frugal engineering capacity and its competitive price. By so doing, India could manufacture truly competitive products for export. The Make in India initiative is promoting this approach, which could facilitate the establishment of a whole production chain. This could also result in moving the production chain of items of lower technological intensity that are currently produced in Europe, thereby making space in European venues for new technologically advanced products. The Make in India initiative could indeed improve the supply chain and enable SMEs to contribute to the creation of an ecosystem of companies – mirroring the European system – producing components that can feed into the final production line.

- *Protection of intellectual property rights:* Technology transfer (ToT) is an especially sensitive issue, particularly now that European defence budgets are struggling to return to the pre-crisis levels. The necessity to protect Intellectual Property Rights (IPRs) goes hand-in-hand with the issue of Foreign Direct Investments (FDI). The decision to increase the FDI threshold to 49 percent did not change the business landscape, as demonstrated by the low level of FDI inflow in 2015 – only 0.08 million dollars for the defence sector.<sup>33</sup> That's why the Indian government

<sup>31</sup> World Bank, *The Ease of Doing Business in India 2017*, <http://www.doingbusiness.org/data/exploreeconomies/india>.

<sup>32</sup> Sebastian Sobolev and Aleksandar D. Jovovic, "The Evolving Landscape of Indian Defense Procurement", in *Defence Industry Daily*, 4 February 2016, <http://www.defenseindustrydaily.com/?p=27154>.

<sup>33</sup> Thomas Mathew, "Road Map for a Robust Defence Industry", in *The Hindu*, 31 March 2016, <http://www.thehindu.com/opinion/columns/road-map-for-a-robust-defence-industry/article8414445.ece>.

has recently relaxed the FDI threshold in the defence sector, allowing up to 100 percent FDI in projects involving state-of-the-art technology. This could allow global defence companies to invest more strongly in India and be perceived as real partners. Having said that, even if this policy-change is particularly welcomed, the protection of IPRs relies also on a credible and effective regulatory “architecture” able to develop a friendly and safe business environment.

- *Market access and export opportunities:* The Make in India initiative should be based on a win-win approach. Guaranteeing access to regional and/or national adjacent markets (such as security, police forces, etc.) is a first step in this direction.

#### 4. How can an enhanced EU-India security dialogue facilitate European defence companies’ investments in India?

There is a growing recognition from European industries of the necessity of better coordination and consolidation of the EDTIB to maintain its competitiveness on the global market. The EDTIB as a whole is competitive, innovative, high tech and capability-driven and its products are often perceived as being of better quality than those of its non-EU competitors. However, the lack of capacity for conducting effective G2G negotiations often results in losing the opportunity. The EU should therefore build on the need expressed by EDTIB for stronger political support, and mature its foreign and, above all, security policy.

However, EU MS are still reluctant in approaching foreign policy through a European lens. This is also because they undervalue the potential of the EU as a multiplier of individual Member States’ potential. However, there are a series of measures that the EU can undertake to boost credibility in EU MS and perform better in the global arena. In addition, the turf war amongst EU MS to position themselves at a comparative advantage puts India in a strong position where it can deflect competition to the EDTIB, to favour even further its leverage during negotiations. “Low hanging fruits” – such as those detailed below – can spin off positive EDTIB cooperation.

Moreover, there is a need for increased cooperation with India at the political level. The defence sector is indeed closely interlinked with the political dimension – and given India’s preference to purchase defence equipment through G2G negotiations, rather than through public procurement, the EU should also prove its value as interlocutor for discussions on defence issues. This could also stimulate a greater buy-in on the part of EU MS into European defence cooperation programmes, as the political support would add long-term benefits – such as market opportunities in third countries – to the short-term benefits of the initial investments.

A multi-pronged approach should therefore be adopted, where practical cooperation facilitates the creation of political space, which in turn calls for more cooperation. The two dimensions, internal coordination and heightened political

engagement, should develop at the same speed, as increased defence cooperation calls for increased political cooperation.

EU-India security dialogue can therefore be enhanced through boosting coordination amongst EU MS, and by enhancing EU political engagement with India.

### 4.1 Boosting coordination amongst EU Member States

To enhance its internal cooperation, the EU should better its coordinator role and prove to its MS the multiplying effect potential. Enhanced cooperation amongst European actors could facilitate an effective approach to the “un-ease” of doing business in India, and boost fruitful competition amongst EDTIB. By tapping into its multiplying effect of the aggregated value of its MS, the EU could facilitate EDTIB to enter the Indian market. Below are some practical ideas for cooperation:

- *Create a normative framework for G2G relations:* The Indian government buys military equipment via two major procurement procedures: either negotiations held at the governmental level (G2G) or selections through public tenders where private companies compete (public tender procurement). Whenever India engages in government relations, it prefers to deal directly with those EU MS with whom it has established a framework for cooperation, like the UK, Germany and (in particular) France.<sup>34</sup> However this unstructured relation does not guarantee a sustainable outcome in the medium term.

European countries do not have a standard framework regulating G2G negotiations, either nationally or at the European level. European companies are therefore in a weaker position in the negotiating game when compared to their American competitors – who enjoy strong G2G relations, thanks to enhanced political engagement but also thanks to the standard framework that the US imposes whenever entering into G2G negotiations with India. The EU could thus agree on a standard flexible contractual framework where general and shared principles are already agreed amongst its 28 MS and with India. In such a scenario, an EU MS entering into negotiations with India would benefit from speedier proceedings with the groundwork already laid, both on the EU level and bilaterally with India.

- *Enhancing an EDTIB coordinating and representative forum in India:* There are currently a variety of fora dealing with European defence industries present in India, each of them with specific strengths and weaknesses. It would be more effective to limit this duplication and merge various organizations into a single forum, with stronger buy-in from the EDTIB and increased recognition by Indian

<sup>34</sup> Gulshan Sachdeva, *Evaluation of the EU-India Strategic Partnership and the Potential for Its Revitalisation*, Brussels, European Parliament, June 2015, p. 20, [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO\\_STU\(2015\)534987](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU(2015)534987).

authorities. Such a forum should effectively coordinate and represent EDTIB in India, act as interlocutor with Indian policy makers, identify areas of common interest and facilitate dialogue. It could also advise Indian policy makers on the main trends affecting the EDTIB, for example in case of “blacklisting.”<sup>35</sup>

- *Favouring defence cooperation through fiscal and tax incentives:* The potential of European programmes such as Eurofighter, NH-90 and A400M has not yet been exploited fully. Since intra-EU competition hampers the European industrial and competitive footprint in the non-EU market, EU could develop new instruments and tools to increase immediate gain, such as fiscal and tax incentives, access to EU structural and regional funds as well as to European Investment Bank (EIB) financing, and/or a sort of European export credit agency – able to incentivize cooperation amongst defence companies and thereby benefitting from these initiatives. In addition, a body advising on technology transfer towards non-EU countries could be established, based on best practices and a win-win approach. Should then the EU mature its role in foreign policy, and provide political backing during G2G negotiations, long-term incentives – linked to export possibilities – would be added.

### 4.2 Enhanced EU political engagement with India

Defence cooperation embeds a high degree of political engagement: buying from a certain country also implies a degree of alignment in political matters, and a geostrategic deal. By purchasing defence equipment from Russia, for example, which is influencing the north of China, or the US – which is increasing its presence in the Indian Ocean – India nurtures a bilateral relation with relevant powers for its geostrategic approach. Understandably, India prefers to cultivate its relations with whichever actor is able to guarantee a stronger political protection. As long as the EU continues to lack a truly common security and defence policy and its MS act independently and bilaterally, it cannot compete in the international arena. Therefore India prefers to deal with EU MS bilaterally, with the caveats that such relations entail.

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<sup>35</sup> About twenty years ago, defence industry structures were essentially nationally based but since the end of the Cold War industries have shifted from traditional single country production to transnational development and production. This trend started with international subcontracting, joint ventures and even cross-border Merger & Acquisition (M&A) processes. Moreover, the number and networks of subcontractors and suppliers have become even more transnational than before. Such “transnationality” of European defence companies has implications also from a legal perspective. Blacklisting one company with connections and ties with other transnational companies – established through consortia and/or JVs – could be detrimental because it denies the possibility for these companies (not affected by the process) to play their game in the international competition. Finally, the consolidation process within the EDTIB is expected to continue, making the blacklisting activity much more complex and with greater repercussions at the industry level.

However, should the EU be able to coordinate the action of its Member States in world politics and leverage its power accordingly, the position of its own industry would largely benefit. Currently, the EDTIB does not benefit from the political back-up and guidance of the EU. This penalizes the EU defence sector (and particularly European cooperation programmes, such as Eurofighter, currently “orphans” of a truly EU political support), which does not benefit from political back-up nor from a vigorous strategic partnership between the EU and India. As detailed above, such lack of political support plays a special role in the competition for the Indian defence market, because EDTIB competitors – which are mainly US, Russian and Israeli companies – benefit from the strong political support of their governments. Below are some recommendations on how to boost EU-India political engagement:

- *More frequent high-level exchanges and EU-India officers interactions:* The EU should create a political space, deepen the political cooperation and enhance its capacity to leverage politically its dialogue with the Indian Government. To step up the partnership, the EU should create a “political space” with India, leading to a closer and more effective partnership. This can be done through more frequent high-level meetings and visits, including visits of the High Representative and Vice President of the European Commission.<sup>36</sup> The chairman of the EU Military Committee (EUMC) should also be regularly present at these high-level meetings. The immediately recognisable role and expertise of the EUMC would indeed facilitate India’s defence counterpart in engaging and smoothing the security dialogue and cooperation.<sup>37</sup> The most recent EU-India Summit, held in Brussels on 30 March 2016, was one such opportunity to renew the commitment and revitalize interest in stepping up the partnership.

Greater interaction between EU and Indian officers, facilitated at the EU level, could also be considered with a view of promoting joint understanding of expectations and priorities in defence matters, as well as enabling a practical network of technical and procedural exchanges. Setting up joint exercises, collective maritime surveillance, common training as well as multinational research<sup>38</sup> between the EU and the Indian navies could be explored, especially for civilian crisis management or interoperability in anti-piracy missions.<sup>39</sup> In addition, India could be offered the opportunity to cooperate with EUROPOL.

- *EU to provide political weight during final negotiations of deals:* Following the agreement of a standard framework for G2G negotiations with India, the EU should provide political support to its EDTIB during bilateral negotiations. When

<sup>36</sup> Stefania Benaglia, “How to Boost EU-India Relations”, in *CEPS Policy Briefs*, No. 341 (March 2016), p. 7, <https://www.ceps.eu/node/11422>.

<sup>37</sup> Ibid.

<sup>38</sup> Gulshan Sachdeva, *Evaluation of the EU-India Strategic Partnership and the Potential for Its Revitalisation*, cit., p. 25.

<sup>39</sup> Karine Lisbonne de Vergeron, “India and the EU: What Opportunities for Defence Cooperation?”, in *EUISS Briefs*, No. 24 (July 2015), <http://www.iss.europa.eu/publications/detail/article/india-and-the-eu-what-opportunities-for-defence-cooperation>.

EU companies compete in a public procurement tender – like the French, Swedish and Eurofighter consortium did in 2011 for the procurement of Medium Multi-role Combat Aircraft for the Indian Air Force – the EU could assume the role of supranational neutral facilitator of commercial negotiations and provide political backing during the negotiating phase, whichever European defence company is selected. This way, the EU would multiply its political leverage, representing all the EDTIB and not just one national company. Such a role could be envisaged by the EDA.

- *Posting a permanent security advisor in the EU Delegation, and an EEAS (EU External Action Service) desk officer in charge of coordinating European defence actions in India:* A security advisor should be permanently posted in the EU Delegation, charged with liaising with the Indian military and defence sector. The security advisor would help the EDTIB to navigate the Indian defence system and vice-versa. Indeed, without this link the entry-point officer and guidance are missing. Similarly to bilateral embassies – where often military attachés act also as a promoter of their domestic defence industry – the EU defence attaché would also provide guidance in understanding and dealing with the EDTIB – and possibly in liaising with the military attachés of individual EU Member States and with the EDA.

### Conclusions

The EU struggles to pose as a security actor, and such lack of assertiveness leads to a decreased credibility and interest in cooperation. Increased EU defence cooperation needs to be fostered. As long as the EU does not engage in building a credible and reliable security and defence policy, it will not acquire a credible status as international security actor or partner.

India's growing defence needs offer many opportunities for defence cooperation that the EDTIB is well equipped to undertake. Should India undertake certain structural reforms (such as protection of IPRs, facilitating market access and export opportunities and upgrading from offsets policy to full chain production), cooperation would greatly benefit.

European defence companies' investments in India would benefit from an enhanced security dialogue. This can be accomplished by boosting coordination amongst EU MS, and by stepping up the EU's political engagement with India.

Enhanced EU MS coordination can be achieved by: agreeing on a standard normative framework for G2G relations with India; enhancing EDTIB coordination and representation; enhancing the EDA's international footprint and coordinating role for the EDTIB; and favouring defence cooperation through fiscal and tax incentives.

Enhanced EU political engagement with India can be achieved through more frequent high-level exchanges; through provision of political support during final negotiations of deals; and by posting a permanent Security Advisor in the EU Delegation as well as an EEAS desk officer in charge of coordinating European defence activities in India.

*Updated 21 November 2016*

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