The United Kingdom's contribution to European security and defence

Bastian Giegerich and Christian Mölling

February 2018

IISS
The International Institute for Strategic Studies

DGAP
Deutsche Gesellschaft für Auswärtige Politik
German Council on Foreign Relations

Executive summary

Defence and security can potentially be positive elements in the story of the British exit from the EU. Brexit will not alter geography. The UK is a power of great importance to European security and defence. Every significant security and defence challenge for EU member-state capitals will also be a concern for London. Therefore, the challenge is to find pragmatic solutions and policies that enable the EU member states and the UK to work together for the security of their citizens.

In the EU, France and the UK come closest to playing a full-spectrum security and defence role. The UK makes a leading contribution to European security through intelligence collection and analysis in support of both law enforcement, in particular counter-terrorism operations, and the full spectrum of military operations. The British armed forces remain among Europe's most capable fighting forces. In contrast to many of their continental counterparts, they have particular strengths in the high-end war-fighting spectrum, but also in their ability to provide scarce enablers to international operations, and in the field of defence capacity building. Like the UK's diplomats, its armed forces have considerable reach and existing relationships beyond Europe.

A new kind of Framework Participation Agreement (FPA) offered to the UK could acknowledge that a third-party country can have strategic importance for EU Common Security and Defence Policy operations. The FPA could include criteria designed to unlock UK contributions for the most demanding EU missions and focus these contributions on military enablers. A dense web of continuous consultations, information-sharing arrangements and reciprocal secondments would provide the UK with opportunities to make its voice heard at all stages of the process, however, short of a formal voting right.

A second element of the way ahead could be created by EU member states in form of a **defence and capability partnership**, open to a wider group of non-member countries, including Norway and Switzerland. Such partners would negotiate the maximum level of commitment with EU member states, but the primary aim would be to allow them to participate in capability development and European Defence Fund (EDF) activities. As the European Defence Agency (EDA) is the gateway to defence R&D projects, the UK would look for an arrangement with the EDA that is more inclusive than the current Administrative Arrangements as part of such an approach.

The UK's defence industry retains distinct advantages in terms of skills and technology. The UK's defence-industrial competences are only partly integrated in the European defence sector; the relationship is immature and slightly asymmetric, with the UK somewhat more dependent on the continental defence-industrial base than vice versa. In particular, regulations and standards tied to the Single European Market (SEM) and their linkages to technology, R&D, the labour market, intellectual-property rights, all the way to transfers and tariffs, present a vulnerability. The impact on the security industry will be larger, because the density of EU regulations and relevant legal acts is higher in the security sector, as is the level of interdependence of EU and UK industries in this sector.

A wait-and-see strategy will miss the window of opportunity to shape the future EU–UK defence and security industrial relationship and to build a **solid**

future legal framework for important areas of the SEM. All parties, industries and governments should immediately assess the short- and medium-term impact of potential Brexit scenarios on supply chains, ongoing procurements and R&D relations.

London and the other EU capitals could embark on a **common political project: the forging of a truly European defence-industrial base**, based on the shared understanding that the defence-industrial domain represents strategic value for both. Practically, they would set the conditions for mergers or intense cooperation among structurally relevant European defence companies. An opening may exist already: the Franco-German initiative to develop a future combat aircraft. If the UK were to join this programme, it would create a highly visible flagship project. Other structurally relevant projects could be identified and give the UK a stake in the European defence-industrial base.

If there is a common understanding among EU member states and the UK that the defence-industrial domain is of strategic interest, EU countries could choose to **make time-limited use of Article 346 of the Treaty on the Functioning of the European Union** to reduce the impact of Brexit on defence industry. Such a move would need to be supported by all EU member states and be mirrored by the UK offering reciprocal treatment. The EU and the UK should continue to work on regulation and standardisation in cases where they are members of the same institutional bodies outside the EU framework.

1. Security and defence: a positive-sum game

Defence and security can potentially be positive elements in the story of the British exit from the European Union. Nobody wins if common security in Europe is compromised. An unconditional commitment to the security of their citizens should inspire a serious conversation about how the remaining EU member states and the United Kingdom can work together.

The UK is no longer a great power, but it is a power of great importance to European security and defence. When the UK departs the EU in 2019, the member state with the largest defence budget, one of the two largest defence-investment budgets, the proven will and ability to deploy armed forces on expeditionary operations around the globe, and an important share of the European defence-industrial base will leave. Furthermore, a permanent member of the UN Security Council and a nuclear power, the UK has considerable diplomatic reach and presence. Its international development and foreign-aid spending has been infused with a clear perception of its utility in conflict prevention, while security-policy bureaucracies across Whitehall have achieved a degree of cohesion and coherence that, while certainly not perfect, is the envy of many other EU member states. Clearly, the UK has a lot to offer, and in some cases, the value it adds to European security is unique, whether through NATO or bilateral and other multinational arrangements.

The British exit from the EU will not alter geography, however. Every significant security and defence challenge for EU member-state capitals will also be a concern for London. In fact, it would be difficult to envisage a security problem in which less cooperation between the EU and the UK would lead to more security on either side. Therefore, the challenge is to find pragmatic solutions and policies that enable the EU member states and the UK to work together for the security of their citizens. The UK's exit from the EU makes this more difficult, but not impossible, because security policy is an area still dominated by national governments, even though the role of Brussels-based institutions and regulations in defence and security is growing.

The two largest risks to a pragmatic and positive outcome are emotional and political. If negotiations about the departure of the UK from the EU degrade into an acrimonious blame game and mutual punishment, security and defence will not escape the bow wave. If either side decides to make cooperation on security and defence a transactional good, pretending it is a zero-sum game when clearly it is not, effectively turning their citizens' security into a bargaining chip, pragmatism cannot succeed either.

In this paper, we look at the UK's contribution to European security and defence in terms of capabilities and industrial capacity. From this analysis, we develop ideas about the policies EU member states and the UK should consider, in order to ensure that security and defence emerges as an arena where the benefits of the UK's departure outweigh the costs for all.

2. Capabilities and industries

Security and defence should be considered as policy fields with distinct characteristics. Relevant capabilities and industries differ significantly, as do the legal-institutional conditions the EU sets for each area. Solutions for keeping the EU and the UK as closely aligned as possible have to take these differences and special characteristics into account.

'Brexit' will have a greater impact on security than on defence for both the EU and the UK, primarily for two reasons. Firstly, the density of regulations and relevant legal acts is higher in the security sector. Secondly, the level of interdependence within the security industry is greater than it is in defence. Indeed, defence and defence industry continue to be an intergovernmental area of policy with only limited supranational input from the EU. However, especially with the EU's Lisbon Treaty entering into force in 2009, linkages between intergovernmental policies and European Commission-driven policies have increased, and boundaries are blurring.

At first glance, the impact on industry of the UK's exit from the EU is likely to differ between the two sectors: many observers assume that its impact on the defence industry will be marginal. This view likely underestimates the importance of barrier-free market access for the UK's defence industry in terms of sales, research and development (R&D) funding, the transnational supply chain and skills. However, the impact on the security industry can be expected to be larger, not least because commercial ties with the continent in this area are even stronger.

Table 1: **Characteristics of the defence and security-policy arenas**

	Defence	Security
Capabilities	• Dominated by national governments • Influence of EU institutions limited but growing • Mutual dependencies among national governments exist • Alternative frameworks exist: NATO; bilateral cooperation	• Patchwork of decision-making centres on national and multinational levels • Influence of EU institutions established • Highly regulated policy arena • Mutual dependencies among national governments are high
Industries	• Emerging EU-level regulation • Emerging EU-level R&D funding • Transnational supply chains • Mutual dependencies among national defence-industrial and -technology bases exist	• Established EU-level regulation • Established EU-level R&D funding • Highly interdependent supply chains • Strong commercial links

2.1 Security and defence capabilities

The UK is characterised as one of two EU member states, the other being France, that come closest to playing a full-spectrum security and defence role, and which are engaged in a set of activities ranging from the management of a nuclear deterrent to everything below. The future of some of these capabilities is marred by a degree of uncertainty as the UK undertakes its National Security Capability Review; in particular, a review of it defence-modernisation programme, the outcome of which is expected in summer 2018. Nevertheless, the UK's contribution across the fields of intelligence and counter-terrorism, conflict prevention, defence spending, military capability across the air, land and naval domains, and operations is considerable.

Intelligence

The UK makes a leading contribution to European security through intelligence collection and analysis in support of both law enforcement, in particular counter-terrorism operations, and the full spectrum of military operations.

The UK has led innovation in sharing counter-terrorism-related intelligence between European partners to enable real-time investigation and the disruption of terrorist operations across European jurisdictions. It has also directly enabled partner states, on a bilateral basis, through the deployment of its own resources and expertise alongside their agencies. In addition, the UK has offered advice and support on improving related investigative and law-enforcement processes.

In the military arena, the UK has been a leader in the collection, analysis and use of intelligence in developing countermeasures for use in conventional and unconventional warfare. As all forms of warfare are increasingly dependent on a rich intelligence picture, the ability to generate strategic and tactical intelligence, and integrate it into combat operations, is at a premium. The UK has led the field in the integration of intelligence collection from military and civilian agencies into military campaigns, and into effective countermeasures against hybrid-warfare techniques, from cyber to subversion. The UK has also shared both specific intelligence and knowledge of hostile services and techniques with European partner services and governments.

The UK has promoted closer bilateral and multilateral operations with European partners in mutually agreed frameworks that sit outside the formal structures of the EU or NATO, but firmly within a common legal and policy framework. This has proved valuable in protecting the sensitive information required to support operational intelligence work. In the field of analysis, however, the UK supports the work of relevant EU and NATO multilateral units.

The UK's armed forces help to collect intelligence, on the tactical and strategic level, through the use of dedicated platforms. For example, the UK holds just over 50% of all combat intelligence, surveillance and reconnaissance heavy unmanned aerial vehicles (CISR UAVs) and about 40% of all electronic-intelligence aircraft of the 28 EU member states. The UK can furthermore leverage its Five Eyes intelligence alliance, involving Australia, Canada, New Zealand and the United States.

Military capabilities

Similar to other European armed forces, the UK's have had to deal with capability and resource cuts, while over the past two decades also being deployed on demanding overseas missions. Despite this unfavourable environment, the British armed forces remain among Europe's most capable fighting forces. In contrast to many of their continental counterparts, they have particular strengths in the high-end warfighting spectrum, but also in their ability to provide scarce enablers to international operations, and in the field of defence capacity building. Like the UK's diplomats, its armed forces have considerable reach and existing relationships beyond Europe, for example in the Gulf region, Nigeria and Pakistan.

Land

In the land domain, with its NATO Allied Rapid Reaction Corps Headquarters, the UK provides a high-quality standing deployable corps headquarters that could serve as a land tactical headquarters, or as the combined joint-task-force headquarters for a land-heavy joint operation. Indeed, the UK is accustomed to acting as the lead nation for multinational divisions and brigades, and has done so repeatedly in Afghanistan, Bosnia, Kosovo and Iraq.

The British Army has an ISR brigade that brings

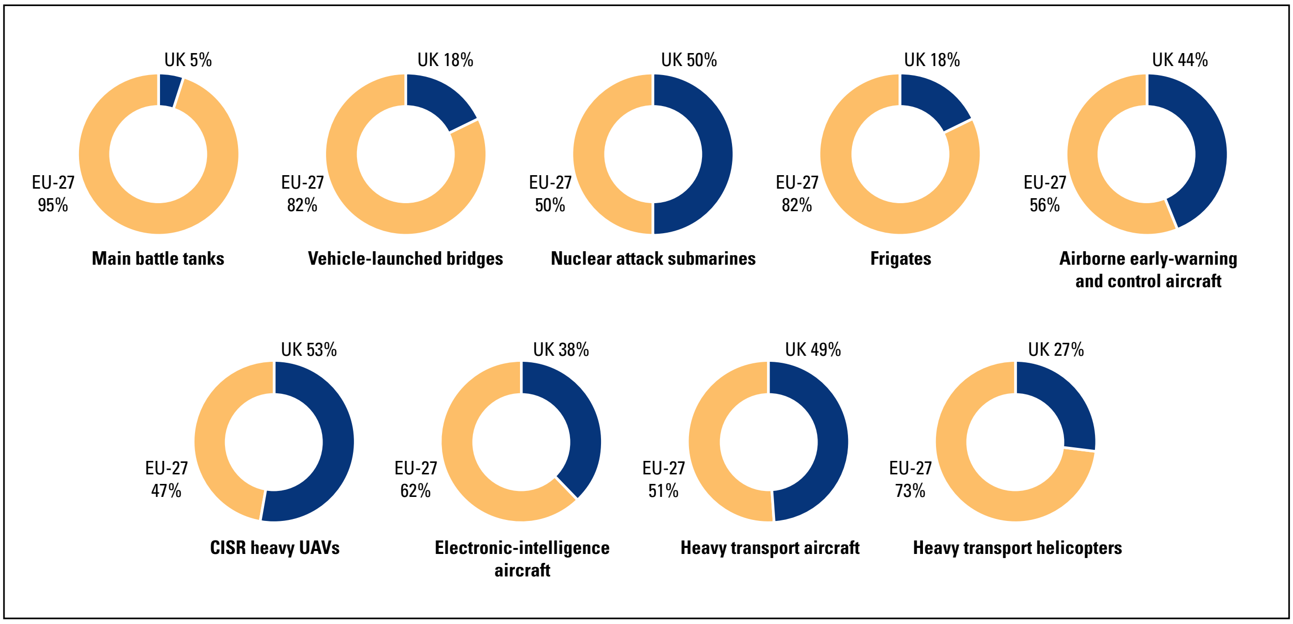

Fig 1: **European Union: UK share of military equipment, 2017** (Source: IISS)

together UAVs, human intelligence and an electronic-warfare capability. It has stood up some innovative formations, such as 77 Brigade, combining information operations and capacity building. Its engineer brigade has a wide range of armoured engineering vehicles that are under emphasised in other European armies and a counter-improvised-explosive-device capability second to none. The British 1 Division has six infantry brigades, each aligned with a region around the world to provide a focus for defence engagement, training and capacity building. This capability now includes a specialist infantry group of two battalions, modelled on US Army 'Green Beret' special-operations forces, to do higher-end capacity building and mentoring and assistance under fire.

More broadly, the UK's Special Forces Group provides a joint special-forces brigade at very high readiness with the capability for covert surveillance. There is also dedicated airlift and a Joint Aviation Wing of army and Royal Air Force helicopters in support.

Air

In the air domain, the UK holds about 50% of all heavy transport aircraft and more than 25% of all heavy transport helicopters among the 28 EU member states. Its airlift capability was demonstrated recently in support of French-led operations in Mali, and in response to humanitarian assistance and disaster-relief operations relating to Hurricane Irma in 2017.

The Royal Air Force has an air-launched land-attack cruise-missile capability with *Storm Shadow*. This is now integrated on the *Tornado* and work is ongoing to integrate it onto the Eurofighter *Typhoon*. With the decision to procure the F-35 *Lightning* II, the UK will field a fifth-generation combat aircraft.

Sea

The Royal Navy holds 50% of all nuclear-powered attack submarines in the EU, with only France providing a similar capability. The British boats have a special-operations-forces deployment capability and land-attack cruise missiles. The UK's aircraft-carrier programme, while expensive, will reinstate a carrier strike capability and could be used to generate European naval task groups, with other countries gathering around the British carriers. Through its Type-45 destroyers, the UK can provide air defence and a nascent ballistic-missile-defence capability. The Royal Marines are probably the most capable amphibious landing force in Europe, able to deploy a brigade-sized force, depending on shipping and support-asset availability. The UK's afloat-support vessels also underline the UK's ability to deploy beyond the European periphery.

Spending on security and defence

The UK has the largest defence budget of all the EU member states and it alone accounts for about 25% of defence equipment-procurement spending among them. It is among the two largest R&D spenders, along with France. It is notable that the UK and France are also in a league of their own when it comes to defence-investment spending – procurement and R&D – both in terms of absolute spending levels and the average percentage of defence spending that goes towards these categories each year.

In Official Development Assistance (ODA) spending terms, in 2016, the UK was the third-largest donor country worldwide, behind Germany and the US. The British government has committed to spending 0.7% of gross national income on ODA, a UN benchmark that most EU member states miss routinely. With the Conflict, Stability and Security Fund, the UK has an inter-departmental budget line on which any department or agency on the National Security Council can bid. In 2016, the fund contained just over £600 million (€732m). Some of this funding has been used to provide conflict advisers for EU Common Security and Defence Policy (CSDP) missions, in an attempt to strengthen the ability of these missions to address the root causes of conflict. Around 13% of British ODA spending is allocated to governance and civil-society projects, which, among other things, are intended to serve conflict-prevention purposes.

Overseas deployments

In 2017, the UK had more than 13,000 military personnel deployed overseas, both on operations and at a number of permanent overseas bases. The number serving in EU operations was less than 100 and therefore well below what many smaller EU member states contribute. The CSDP has never been central to the UK in operational terms because the remit of CSDP operations, essentially crisis management, has only ever reflected a limited part of the overall British level of ambition.

However, on paper the UK has declared personnel and assets adding up to about 20% of the so-called EU Force Catalogue, which is used to identify shortfalls in relation to the military level of ambition for CSDP. While these headline-goal indications, like those of other EU members, are of a somewhat theoretical value because they do not translate into actual pledges, they are nevertheless a sign of the military value the UK could bring.

Furthermore, CSDP operations are an opportunity for the UK to help mobilise other Europeans for crisis-management purposes. British contributions are therefore often aimed at generating impact through quality rather than quantity. This could be in the form of high-calibre staff officers or civilian secondees, such as police officers, judges or prosecutors.

Beyond the ambition of the CSDP, among the EU member states, the UK is equalled only by France in its ability to project combat power globally and to do so across all military domains.

2.2 Industrial capacities in security and defence

Institutions and regulations

EU institutions and regulations do not significantly determine the operations of national defence industry or those of state-procurement systems. The majority of projects and procurements take place on purely intergovernmental bases, using institutions such as the Organisation for Joint Armament Cooperation (OCCAR) or NATO agencies, and will continue to do so as long as current defence projects dominate the landscape.

The EU defence-industrial base, in practice, is a mixture of 28 markets with highly nationalised procurement habits. These national industries have, nonetheless, significant transnational ties due to intergovernmental procurement-project supply chains that often need industries from all national buyers to take part in the project. While some EU regulation has been put in place in order to forge an EU defence market and industrial base, its actual impact on member-state and British defence procurement has been limited: 80–90% of UK contracts have been awarded domestically.

In terms of institutions and regulations, most Brexit outcomes are manageable for the European defence-industrial domain. Given that defence procurement generally involves long-term contracts, defence-industrial processes and systems will not change quickly. Instead, a wait-and-see strategy by companies is probable. And as British defence sales to the EU are negligible, UK defence firms are less vulnerable than other sectors to major financial losses from a 'hard' Brexit.

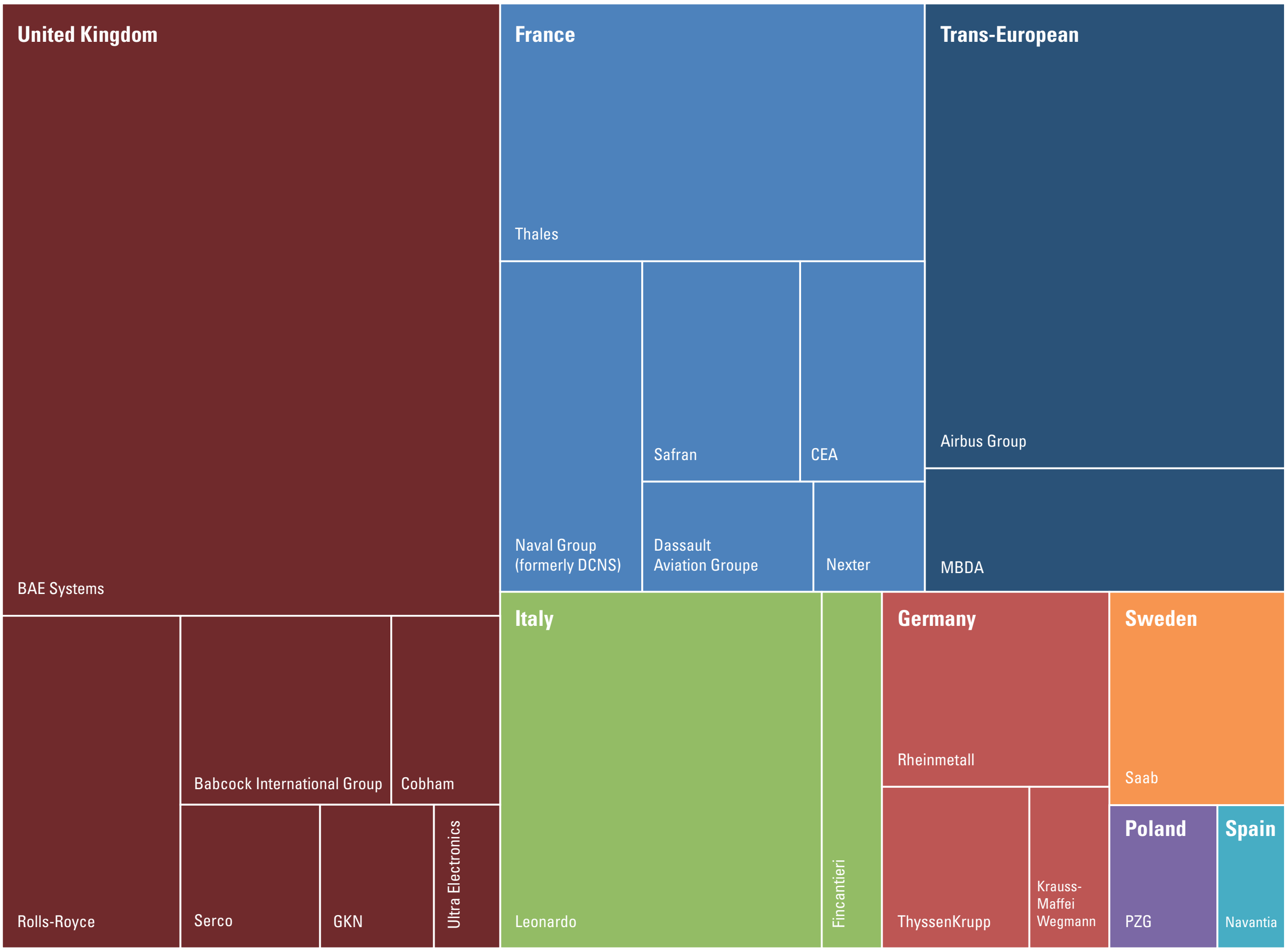

Fig 2: **European defence industry: regional share 2016** (Source: SIPRI)

The key factor for the future is the UK's relationship to the Single European Market (SEM). This is crucial, for instance in the case of transfer regulations, such as export authorisations, for dual-use products. The potential imposition of commercial tariffs is likely to have implications for the defence-industrial domain.

At least two options for a future framework are possible. The UK could enter the European Economic Area (EEA) or use the existing World Trade Organisation (WTO) framework. The WTO has excluded defence and security procurement from its rules, allowing a rather flexible approach to future procurements. With EEA membership, the UK would ensure better access to major potential customers and more cooperation among EEA industries, but the rules would be less flexible.

A more flexible national regime on trade and transfers could have profound political and industrial consequences if the UK wants easy access to the sizeable EU market. Depending on the extent to which UK legislation remains compliant with – or inspired by – EU law after Brexit, the need for the UK at least to revisit its regulatory approach to defence could have knock-on effects for the relationship between the UK government and the British defence industry. Should the EU increase the regulation of its defence and security market, the impact would be heightened.

With regards to the security industry, EU regulations and standards for the various sub-sectors are increasingly emerging. This may make it worthwhile for the UK to continue to comply with EU rules, especially with future regulations emerging from the process of European standardisation. This is important for the UK, as cyber security constitutes Britain's largest security-export category, at 34% in 2016. To continue trade with EU member states, alignment with EU regulations in this field is, and will continue to be, an advantage.

Companies and competences

Company links between the UK and other EU member states run through the subsidiaries of other companies,

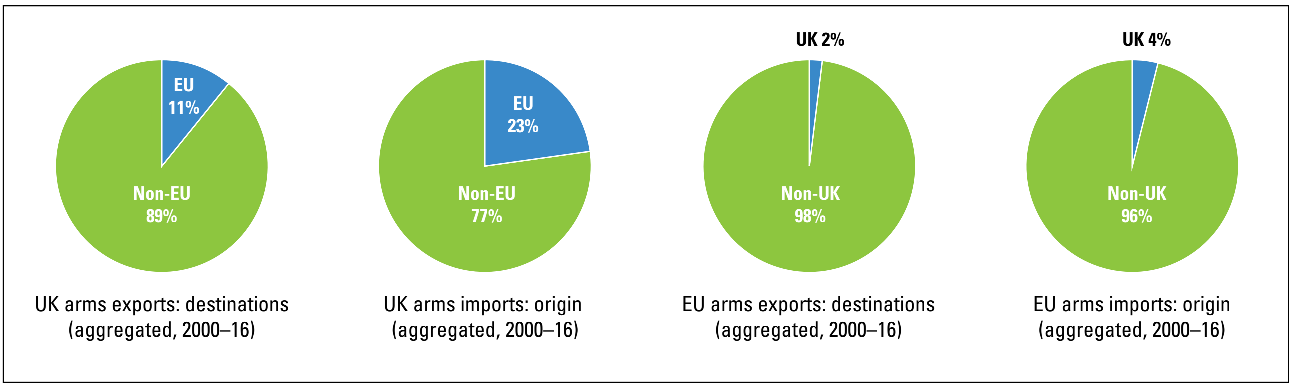

Fig 3: **EU and UK arms trade: imports and exports, 2000–16** (Source: SIPRI)

for example AgustaWestland in the UK (a subsidiary of Leonardo) and BAE Systems Hägglunds & Bofors in Sweden (subsidiaries of BAE Systems), while some European companies (not necessarily from the defence sector) are shareholders in the privatised British defence industry. Moreover, some companies participate in trans-European joint ventures, such as EuroJet Turbo, which produces the turbines for the Eurofighter Consortium. Yet most of these joint ventures are linked to specific projects and do not exist as independent companies. Practically, MBDA is the only exception to this rule, with a strong Anglo-French core.

The UK has particular strengths in aerospace, naval shipping, engines, electronics and complex weapons. Its industrial products of excellence comprise many sorts of naval platforms, from submarines to destroyers and aircraft carriers. Through international cooperation it also contributes to aircraft and helicopters, and thereby has broad competences in related areas. Since some of the UK's largest aerospace-manufacturing capabilities are owned by EU-headquartered companies (for example, Airbus and Thales), with regards to Brexit it will be necessary to arrive at agreements in areas such as the right to work, data sovereignty, intellectual property and taxes, just to maintain the status quo of day-to-day working.

Imports and exports

The UK's defence-industrial competences are not deeply integrated with the European defence sector; the relationship is immature and slightly asymmetric. Between 2000 and 2016, of the UK's total arms exports, only 11% were to EU member states. This percentage accounted for only 4% of the total (other) 27 EU member-state arms imports during the same period. In contrast, EU member-state exports constituted 23% of the UK's arms imports, while the UK was the destination of only 2% of the total EU member-state exports. However, British defence industry has more important links beyond Europe, especially in the US and with some prime customers, including Canada, India and Saudi Arabia. The UK has achieved market access to non-EU countries and guaranteed equal treatment without recourse to EU-style regulation.

The UK's security-industry picture is different: it accounted for €4.9 billion (£4bn) in export sales in 2016, making it the fifth-largest security exporter globally. According to the UK's Department for International Trade, the security industry is expected to provide the UK's strongest export-market growth. EU member states are the biggest importers of security products from the UK, representing 55% of the export value in 2016, with the Asia-Pacific region coming second at 24%. Consequently, a hard Brexit, with the UK leaving the SEM, would most likely harm the security industry more than the defence industry.

Use of UK equipment and multinational cooperation projects

The British Army and Royal Navy almost exclusively use British-made equipment, for example the *Challenger* 2 main battle tank, the AS90 self-propelled artillery piece and essentially all naval vessels. The picture differs for aircraft and helicopters, where the UK mostly uses equipment stemming from either multinational European projects, such as the *Tornado*, Eurofighter *Typhoon* and A400M, or imports from the US, such as the F-35, AH-64 *Apache* helicopter and the P-8 *Poseidon* maritime-patrol aircraft.

UK-made equipment, in particular helicopters such as the AgustaWestland *Lynx*, has made inroads into the inventories of European armed forces. Yet their use is limited to Denmark, France, Germany and Portugal. Meanwhile, British-made components, such as power shafts, turbines and the turret of the AS90 for the new Polish self-propelled artillery system, have been sold to EU member states only in limited quantities.

Multinational cooperation projects have in general been a mixed success story. Like many other EU states, the UK has dropped out of multiple multinational projects in which it initially participated, such as the *Boxer* armoured personnel carrier, the NH90 medium transport helicopter and the Common New Generation Frigate project. However, in the air domain it has remained engaged in cooperation, leading in the past to systems such as the Eurofighter *Typhoon*. Moreover, the UK is engaged in the bilateral Anglo-French development of an unmanned combat aerial vehicle.

Brexit will most likely not affect ongoing procurements, beyond transfer and supply-line issues. The UK could continue to choose equipment from UK, European or US suppliers, take part in multinational programmes and buy off the shelf, as desired. A withdrawal by EU countries from current major defence-industrial projects due to Brexit is also unlikely, as the UK's contribution is often integral to the success of the venture.

Assessments for future European projects are more difficult. The UK may be needed because of its financial resources and industrial competences. However, the ongoing discussions on EU defence have the potential to result in the exclusion of UK defence industry from future major European defence-industrial developments, from at least the extra funding available to EU members and industries. The framework for future projects will be critical: will multinational programmes take place in the classical setting of 'juste retour' and intergovernmental arrangements outside the EU, or will they come increasingly under the auspices of an EU framework?

Research and development

In comparison to other EU states, the UK spends a noticeably greater percentage of its budget on R&D. The resulting defence-industrial and academic landscape enables not only military access to cutting-edge technology, but it also has knock-on effects for defence-industrial competitiveness as new technologies are 'spun-off' into civil or dual-use products. The UK receives a share of its public research funding (€1.1bn, or £798m, in 2015) from the EU, indicating both competitiveness with EU states and a dependency on EU funding.

As the UK remains an EU member until 2019, Brexit will not immediately affect current EU research funding in the security, dual-use technology and defence domains. However, if it is not part of the next EU research programme and budgetary plan for 2021–27, the UK's dependency on EU funding will become apparent. From a long-term perspective, cuts to UK funding are to be expected. The lack of R&D investment would be particularly challenging, as new military equipment becomes more and more complex and, consequently, R&D becomes more intense and costly. In particular, the role of universities will remain critical in ensuring the UK remains a leading innovator.

A new practice for national and EU-level defence and security funding may emerge. While governments might focus on personnel and maintenance, the EU may become a key funder for R&D, having run funding lines for dual-use R&D for years. This would limit available funding for the UK, if it has no access to EU-level funding. Higher levels of national defence R&D funding would become necessary for the UK.

R&D funding is also crucial for the security industry. In 2017, the ADS Group's UK security-sector outlook reported concerns voiced by companies that they will not be able to access the R&D and design and engineering skills that are necessary for innovation. Research, design and engineering account for nearly a third of the job functions within the security industry, and this is a growing trend. Addressing such concerns is likely to become increasingly important for the security industry's growth, with regard to access to the European labour market and future research funding and cooperation.

Skilled labour

The defence- and security-industrial skill base across Europe is already facing demographic, recruitment and

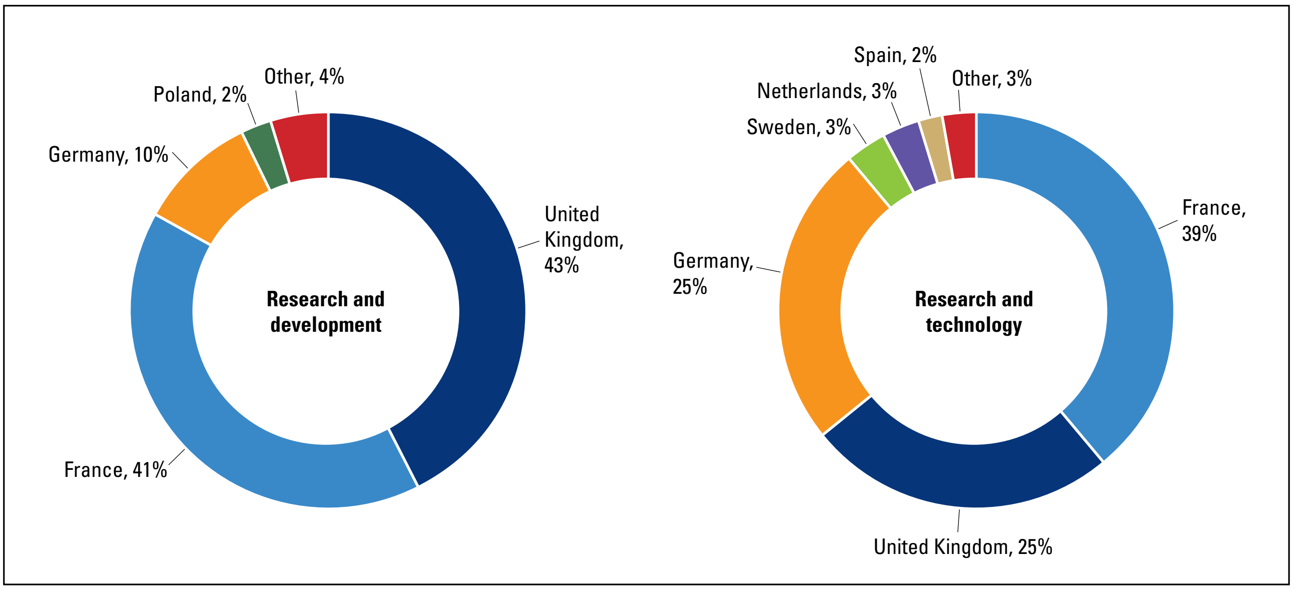

Fig 4: **Breakdown of R&D and R&T spending of EDA member states in 2015** (Source: EDA)

educational challenges. The UK is, to a certain degree, dependent on highly skilled labour from the EU. Losing access to the EU's skilled labour market will make the UK defence industry a less attractive area for investment. According to RAND, EU citizens occupy 17% of research and teaching posts at UK universities. While it is likely that this is not true to the same degree in the defence industry, where security clearances might raise additional hurdles, a Brexit without proper access rules for European academics and engineers might slow overall scientific progress in the UK.

Tariffs and exchange rates

Brexit has already led to volatile exchange rates, and consequently to uncertainty in markets. Such circumstances usually encourage a wait-and-see investment policy and may slow trade.

A future devaluation of sterling would have both positive and negative effects for defence and security products; however, the magnitude of these effects cannot be predicted easily. In future, British defence and security products could become more competitively priced for foreign buyers. This would probably lead to an increase in British exports and investment in the UK. At the same time, the costs of imported products rise as they become more expensive in sterling, including the materials used in production processes. This could lead to an increase in the prices of British products, depending on the imported products and materials in their supply chain.

When British companies supply foreign states, and when the UK armed forces purchase equipment from foreign suppliers, contracts are often negotiated in US dollars. For example, the UK's *Typhoon* deal with Saudi Arabia was negotiated in US dollars, as was as the F-35 deal. If sterling becomes weaker, profits made in US dollars will result in more income in British pounds for the seller. However, a weak British pound impacts on the spending power of the UK Ministry of Defence, as products will cost more if contracts are in US dollars. The same is true of the cost of spares and other support for existing stocks of US-built equipment on which the UK relies. For instance, a weak pound would have a significant impact on the currently ongoing procurement of F-35 aircraft.

In general, to maintain cost competitiveness post-Brexit within the EU market, British manufacturers will require lower costs, assuming some tariffs will apply for the import and export of goods to and from EU nations, even for defence-related goods or components.

3 Implications for the future security and defence relationship between the EU and the UK

Although the UK's exit from the EU is a process that is preoccupying decision-makers in London, it is fair to say that their counterparts in the other EU capitals are less consumed by the issue. Although the UK is the most powerful player in Europe in the security and defence arenas, its security is equally dependent on its neighbours. The UK would benefit from a close partnership with the EU in foreign and security policy, and it is therefore vital to think about the security and defence relationship of the future.

Mutual support on security and defence should not be a bargaining chip. This paper was written in the spirit of making the future EU–UK relationship in these areas as strong as possible, a goal that requires the willingness on both sides to consider ambitious arrangements, revisit arguments and to envisage compromise. This is not to deny that there are many obstacles ahead. But it is a necessary assumption for the recommendations set out below that the political will can be found to ensure the best possible security for Europe.

Solutions for classic intergovernmental EU defence issues, such as military operations, would be easily identifiable: standalone approaches for UK contributions to operations and capabilities are possible. However, such an approach may disconnect security and defence from EU foreign policy more broadly, which, in theory, is a driver of future demands for EU member-state capabilities. A limited, standalone approach is also very unlikely to be future proof; the density of EU institutional security and defence legislation is likely to increase over time, making it harder for the UK to 'plug in'. It would also exclude the important industrial dimensions of defence and security.

Common Security and Defence Policy

The UK will have to decide what sort of arrangement it wants concerning the EU's framework of choice for operations, the CSDP. Today, non-EU countries use so-called Framework Participation Agreements (FPAs) to contribute to CSDP operations, but they do not have a say in the organisation, preparation or command process, and therefore the strategic direction of operations. While it is reasonable for EU governments to want to protect their decision-making autonomy, a more creative approach would make it easier for the UK to contribute to the CSDP once it has left the EU.

Short of a formal decision-making role, which is unlikely to be granted to a non-member, a dense web of continuous consultations, information-sharing arrangements and reciprocal secondments could give the UK the confidence that its voice is being heard. If the UK decides to offer a significant contribution to CSDP operations, it would expect to have a say on the operational mandate and planning. EU member states should make it clear to the UK that in exchange for such an upgraded role, they would look for assistance in the area of key enablers. It is here that the UK can make a unique contribution, for example in strategic airlift or in ISR and target acquisition. The wider issue of intelligence sharing must also be included in future EU–UK cooperation agreements**.** The UK's skills and potential contributions in this area are of vital interest to its partners. The same logic applies to civilian CSDP missions, for which the UK can supply high-quality personnel that is in scarce supply elsewhere in Europe. Such an agreement could also see continued UK participation in the EU battlegroups.

In order to facilitate this, the EU member states would have to decide to create a new kind of FPA. This would acknowledge that a third-party country can have strategic importance for CSDP operations. It would also be based on criteria designed to unlock UK contributions for the most demanding EU missions, including acritical enablers.

European Defence Agency

Regarding the European Defence Agency (EDA), the UK has had significant influence since its inception in 2004. To be a member of the EDA, a country must be in the EU. However, some other countries – Norway, Serbia, Switzerland and Ukraine – already have so-called 'Administrative Arrangements' with the EDA. They allow for interaction, project partnerships and voluntary personnel contributions, but they do not confer voting rights or automatic presence at any meeting, in particular steering boards. Further access to EDA output is on a case-by-case basis, decided by the participating member states.

For now, the EDA is the gateway to R&D projects, the European Defence Fund (EDF) and, most importantly, is likely to be the route for future European Commission investments in defence. Whilst access is going to be limited for non-members, there are opportunities to benefit from the results of R&D activity and to win R&D contracts, as well as ongoing projects that benefit the UK. Overlaid on all of this is that if the UK is involved in the EDA and has some influence on its activities, the benefits for future operations and interoperability are potentially significant. Therefore, the UK and EU should seek an arrangement with the EDA that is more inclusive than the current Administrative Arrangements option.

For example, the EU could create a new approach for non-member countries that are interested in a defence and capability partnership. This would accommodate a wider group of interested countries, like Norway and Switzerland, but leave open the maximum level of commitment. Such partners would have the opportunity to participate in missions, capability development and EDF activities (on the assumption they would make financial contributions to the fund). Such an approach would also reflect the reality of the current defence landscape, where more cooperation with important countries takes place outside the EU framework. Moreover, it would enable closer links with more NATO countries in terms of EU developments, above existing but very technical defence-planning links. This would not place the UK in a class of its own, but offer the freedom for the UK, among others, to make the maximum contribution within such a defence and capability partnership framework.

NATO and the UN

Meanwhile, the 2016 Joint Declaration between the EU and NATO has been much vaunted at the top levels of these institutions, and has undoubtedly changed attitudes and made cooperation between them more palatable. The EU and the UK should shape jointly the further implementation of EU–NATO cooperation. To start with, the EU and the UK should push for a EU–NATO Security Arrangement. Without such an arrangement, a meaningful exchange of documents and information between the two organisations remains impossible. Moreover, the UK could actively support EU–NATO synchronisation from the NATO side by leading initiatives and working groups, for example on capabilities, defence planning and cyber.

From a wider foreign-policy perspective, the UK remains an important player in the UN. Here it shares many interests with the EU, for example maintaining the Iran nuclear deal. The UK could offer the EU formal consultations before it formulates its positions and decisions on topics within the UN Security Council.

Defence industry

In terms of the defence-industrial domain, EU member states and the UK should reach a common understanding: that these industries and the products and services they provide represent a strategic interest. European armed forces, whether they operate under national, EU, NATO, UN or other multinational headings, need world-class equipment and support. Indeed, EU states, including the UK, have received important capabilities from joint projects that draw on the European defence-industrial base. It is in the interests of European countries that this continues.

Based on such an understanding, London and the other EU capitals could embark on a common political project: the forging of a truly European defence-industrial base. Practically, they would set the conditions for mergers or at least promote intense cooperation among structurally relevant European defence companies. Achieving this would be a generational project that substantially changes current industrial structures. Besides providing a long-term political project to pursue together, it would help create a truly sustainable European defence, technological and industrial base that can operate in global markets, eye to eye with advanced competitors.

An opening may exist already: the Franco-German initiative to develop a future combat aircraft. If the UK were to join this programme, it would create a highly visible flagship project, which could be a driver for industrial integration or at least closer cooperation among companies. Other structurally relevant projects could be identified and give the UK a stake in the European defence-industrial base. The intergovernmental nature of agreements in this area would facilitate such an approach.

Meanwhile, pooling and the consolidation of industrial capabilities can make the sector even more effective, including in export markets, while joint projects prevent competition among European companies in these markets. The UK and others could propose concrete areas for the consolidation and pooling of such industries. The necessary consultation can take place in EU+UK formats or among Letter of Intent states, possibly including Poland.

As a matter of minimum responsibility, all parties, industries and governments should also immediately prepare for the short- and medium-term impact on their operations of a no-deal scenario in March 2019, in which the UK leaves the SEM. As well as the impact on funding dependencies, this concerns supply chains, ongoing procurements and R&D relations, as well as labour markets, among other areas, that would have to cross a newly established border between the EU and the UK.

There would need to be a solid future legal framework for all areas of the SEM that have a link to the security and defence industries. The industrial base can live neither on ad hoc agreements nor on standalone solutions. However, an agreed framework should be flexible enough to allow more detailed agreements to be negotiated on a case-by-case basis, if necessary. Regulatory initiatives for cyber and artificial intelligence (AI), with respect to both industrial standards and security norms, would inevitably have to focus on global solutions to be most effective.

If there is a common understanding among EU member states and the UK that the defence-industrial domain is of strategic interest, EU countries could choose to make use of Article 346 of the Treaty on the Functioning of the European Union to protect defence industry from a Brexit fallout. The article reads: '… 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.' While normally used to justify non-competitive domestic procurement, the article could be used, for a limited time and until new arrangements have been put in place, to treat the UK as if it was still in the EU. Such a move would need to be supported by all EU member states to avoid internal EU legal challenges and would need to be mirrored by the UK offering reciprocal treatment.

The EU and the UK can also easily continue to work on regulation and standardisation in cases where they are members of the same institutional bodies. An example of this is the common membership of the two European standardisation organisations with relevance to the security industry: the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). These are not official EU bodies and as such membership will not be formally affected by Article 50 or the UK's exit from the SEM.

Through such memberships, there may be scope for the EU and the UK to shape wider European or even global norms. Therefore, a clear commitment to such bodies should be maintained, or risk endangering UK firms' competitiveness when exporting to the important European market and, in the case of an exit from the SEM, seriously challenging the security industry in the UK.

Overall, security and defence play only a minor part in the Brexit game. Therefore, negotiations on security and defence have to be been seen as part of an overall package. Persuasive and solid commitments are needed on both sides. This will demand compromises for the greater good of European security.

Acknowledgements

While the lead authors accept full responsibility for the contents of this paper, they were fortunate to be able to draw on the advice and knowledge of a number of colleagues at the DGAP and the IISS who all made important contributions. We would like to thank Douglas Barrie, Ben Barry, Johanna Behr, Lucie Béraud-Sudreau, Nick Childs, James Hackett, John Raine, Peter Round, Torben Schütz, and Alicia von Voß. We also benefited from informal exchanges with a range of officials in foreign and defence ministries. Research for this paper was supported by a generous grant from the UK's Foreign and Commonwealth Office.

The International Institute for Strategic Studies – UK
Arundel House | 6 Temple Place | London | WC2R 2PG | UK
t. +44 (0) 20 7379 7676 **f.** +44 (0) 20 7836 3108 **e.** iiss@iiss.org www.iiss.org

The International Institute for Strategic Studies – Americas
2121 K Street, NW | Suite 801 | Washington, DC 20037 | USA
t. +1 202 659 1490 **f.** +1 202 659 1499 **e.** iiss-americas@iiss.org **w.** www.iiss.org

The International Institute for Strategic Studies – Asia
9 Raffles Place | #51-01 Republic Plaza | Singapore 048619
t. +65 6499 0055 **f.** +65 6499 0059 **e.** iiss-asia@iiss.org

The International Institute for Strategic Studies – Middle East
14th floor, GBCORP Tower | Bahrain Financial Harbour | Manama | Kingdom of Bahrain
t. +973 1718 1155 **f.** +973 1710 0155 **e.** iiss-middleeast@iiss.org