

EXECUTIVE SUMMARY

Through extensive mergers and re-structuring, and through rapid progress in common procurement practices in OCCAR (Organisme conjoint de coopération en matière d'armement/ Joint Armaments Cooperation Structure), the supply side of European defence industry has radically changed in just five years. The demand side remains, however, behind. European governments have declared a new Common European Security and Defence Policy concomitant with a new Rapid Reaction Force but have as of yet made little new defence budget investment.

At the same time, the pace and scope of shared defence projects are increasing with the future large transport aircraft (A400M), missile development, and helicopter development as a few of the leading examples.

British firms led by BAe (British Aerospace) have positioned themselves in the best leverage position to benefit from advances in EADS (European Aeronautic Defence and Space) as well as from joint American ventures. BAe-Lockheed Martin is now the sixth largest defence supplier in the US market. A major development to watch is the "shake out" between BAe and EADS. Whether this relationship will be characterized by collaboration or competition remains to be seen.

The rapid pace of consolidation among American defence "giants" after 1991 and a slow raise in US defence budgets since the mid 1990s have put the American firms in a very strong position to either cooperate or compete with emerging European "giants".

The American defence market can be called a fortress due to various layers of protection from direct foreign investment, joint ventures, and exports to third parties. European participation in this market is difficult. Canada has a unique and valuable position in this market. Efforts are underway to create joint European-American defence export regimes. Again, Britain leads other European governments in this area.

Reeling from cutbacks, the Canadian defence industry is showing signs of recovery. Capital expenditures and investment in military equipment in the last few years will be a much-needed boost. Its subsidiary status and niche position in the US industrial and technological base can be turned again into its greatest asset. The complete resolution of the ITARs (International Trade in Arms Regulations) controversy is a necessary step in this recovery. Canada will have to "level up" to some of the national security and export provisions demanded by the United States.

There is no fortress Europe in the defence industry, only remaining citadels and emerging transnational conglomerates. Intra-European trade in defence products is low. It remains to be seen how well the shared projects can satisfy national procurement objectives.

Akin to the consolidation of the Single European Market in 1992, North American companies are now investing in the European defence market in anticipation of a Single European Defence Market. Unlike the Single Market, however, the market in defence is not driven by EU-15 policy, but is driven by market forces and is without specified deadline. Whether shareholders and governments will agree remains to be seen. North American firms are therefore more cautious.

Cooperation across the Atlantic among defence industries and among governments is far from inevitable. The interests of interoperability, economies of scale, dual-use technology flows,