

# Chapter 7

## Collaborative Defence Procurement: How to Make It Work

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### ABSTRACT

*In collaborative defence procurement, a number of states agree to acquire a weapon system and/or its support in cooperation. Such programs have over the last decades become a prominent feature of defence procurement in Europe, but are often considered inefficient because of large cost overruns and delays in capability delivery. After introducing the reader to the concept of collaborative procurement from a European perspective, this chapter analyses the management structure and procurement process of those programs and makes proposals to increase their efficiency, essentially by ensuring a more efficient preparation phase, adopting more inventive financing principles, setting-up more integrated management structures, streamlining their decision-making process, avoiding monopoly creation on the side of industry, and moving away from the 'juste retour' work allocation principle used in most of those programs.*

### INTRODUCTION AND BACKGROUND

Defence procurement could be broadly defined as public procurement performed for the benefit of the armed forces. Defence procurement activities play a key role in the security of the European Union (EU) member states, to the extent of being the subject of a specific exemption in Art.346 of the Treaty on the Functioning of the EU (Trybus, 1999, p.25; Georgopoulos, 2005a; Mezzadri, 2005; Schmitt, 2005; Heuninckx, 2010). Defence expenditures of EU member states amounted in the period 2005-2012 to an average of about €197 billion yearly. Of that total amount, an average of about 20% (€40 billion per year) were used for the procurement of defence equipment and Research and Development (R&D), and about 23% (€46 billion per year) for operations and maintenance (EDA, 2014a), a large part of which also find their source in procurement activities (European Commission, 2006b, §1.1.5; Darnis, 2007, p.3).

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However, within the EU, defence procurement is still heavily segmented, much more so than any other sector of public procurement (Schmitt, 2000, pp.79-83; Georgopoulos, 2005a, p.567), and is therefore considered as economically inefficient. Studies have shown that 10-30% of the European defence procurement budgets could be saved by a combination of reduced market fragmentation, harmonization of requirements in time and scope, and especially by increased the efficiency of major procurement programs (Trybus, 1996; Dufour, 2005, §6.7).

In an attempt to increase such efficiency, states sometimes resort to collaborative procurement, whereby they agree to acquire and/or support some expensive defence equipment in common. Collaborative procurement is expected to have cost benefits during the development and the production phase of the system, such as sharing R&D costs and creating economies of scale during production, operational benefits because of interoperability and standardization of equipment across the participating states, industrial benefits such as technology transfers, and political benefits by helping the participating states foster mutual understanding (Bourn, 1991, §1.1; Lorell & Lowell, 1995, p.7; Hayward, 1997; Mawdsley, 2002, p.5; Public Accounts Committee, 2002, §6; Fraser, 2004; Keohane, 2004; Flournoy & Smith, 2005, §6; Darnis, 2007, pp.11-14; and in particular Heuninckx, 2008b, pp.124-125).

In addition, collaborative procurement allows states to procure military equipment that they would not be able to acquire on their own because of insufficient budget and technical or industrial capability (Maulny, 2006, pp.6-7). In that sense, for smaller states, it is the only procurement alternative that allows both to afford major weapon systems and to influence their operational and technical specifications.

An average of about 23% of the defence equipment procurement and Research and Development (R&D) expenditures of EU member states (more than €9 billion per year) was performed through collaborative efforts in the period 2005-2012. By far the largest portion of these collaborative procurement activities (an average of about 91%) was performed between states that were in majority EU members. The percentage of collaborative defence equipment and R&D expenditures in the EU varied between 17 and 27% over that period, with a target set at 35% by the EU (EDA, 2014a). It is important to note that these figures do not cover collaborative procurement for in-service support activities such as maintenance, so that the total collaborative defence procurement expenses of EU member states are most likely significantly higher.

The figures show that collaborative defence procurement, despite being an important element of defence procurement in the EU, has not developed significantly over the last years. The percentage of collaborative defence equipment and R&D expenditures has not shown an increasing or decreasing trend. Moreover, there does not seem to be a target date, or even a concrete action plan at the EU level, for reaching the 35% target.

Moreover, collaborative programs have not always been successful. Even though, in a world of drastically reduced defence budgets and increasingly costly and complex military equipment, collaborative defence procurement is, for most European states, the most adequate compromise between an often impossible national development and an off-the-shelf purchase from another country, European collaborative defence procurement suffers from a number of shortfalls (Darnis, 2007, pp.15-27; Heuninckx, 2008a, pp.142-144). Because of those inefficiencies, some have argued that collaborative defence procurement is a waste of time and money, is unable to deliver the required capability on time and on cost, and should be avoided as much as possible (Kinkaid, 2004; Cox, 2009, pp.5-10). The main shortfalls of collaborative defence programs seem to be due to the actual collaborative procurement process in its broader sense, including their preparation phase where technical specifications and international agreements are negotiated, their institutional structure and multinational decision-making, and the award and work allocation principles

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