

➤ Southern Europe Defence in Times of Austerity

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The global economic and financial crisis that broke out in 2008 had a significant impact on European countries and, consequently, on their fiscal and budgetary decisions in various policy areas. Security and defence were no exception. Despite the fact that the international security context continues to require a proper response to a set of transnational and sub-national risks and threats, – including regional instability (mostly in the Middle East and North Africa), arms and nuclear proliferation, cyber-attacks, extremist and terrorist movements, organised crime and human trafficking and natural disasters – European countries adapted their budgets to an environment of economic crisis, namely by applying austerity measures to its defence structures.

With decreasing resources and constant (or even growing) needs, all European countries had to think of how to obtain better results at any level of spending – personnel, investment and operations/maintenance – and how to reduce the impact of major expenditure cuts. This took place on two levels: at the national level, by starting a process of adjustment and reform within the defence structure aimed at more efficient organisational arrangements; at the European level, by promoting better cooperation between countries (namely regarding common projects such as force generation and investment) both at the NATO and EU level. As an example of this international cooperation, the Atlantic Alliance started a comprehensive debate on a new way of thinking about generating modern defence capabilities, the so-called ‘smart defence’ concept. It aimed to encourage Allies to cooperate in developing, acquiring and maintaining military capabilities. The same has been done within the EU’s Common Security and Defence Policy (CSDP) through the promotion of the ‘pooling and sharing’ concept within the European Defence Agency (EDA) framework. Most EU countries, notably those who are also NATO members, must look for the best way to profit from the cooperation mechanisms within the two organisations.

The total military expenditure in Europe of 2011 remained nearly unchanged in real terms to that of 2010 at \$407 billion.¹ However, two-thirds of the countries in Western and Central Europe have cut military spending since 2008. At the national level, the evolution of defence budgets differed across Europe as seen in three main groups. The first corresponds to the countries that increased military spending resulting from a sustained economic growth. Poland, for example, increased its military spending by 12 percent between 2008 and 2011 as it sought to increase its deployable troops and become an even more active participant within the EU and NATO. Other countries also increased military spending in the same period: Turkey (10 percent), Sweden (seven percent) and Switzerland (seven percent). The second group includes the three major spenders in Western Europe (the UK, France and Germany). These countries have made small reductions in military spending since 2008, in each case by less than five percent in real terms. In 2010, however, the UK’s Strategic Defence and Security Review (SDSR)² proposed to reduce

1 Stockholm International Peace Research Institute, *Sipri Yearbook 2012 Armaments, Disarmament and International Security* (Oxford: Oxford University Press, 2012), 173–6.

2 ‘Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review,’ October 2010, <https://www.gov.uk/government/publications/the-strategic-defence-and-security-review-securing-britain-in-an-age-of-uncertainty>.

the UK's defence budget by 7.5 percent over four years. Germany plans to cut military expenditure by 10 percent by 2015. France, which presented its White Paper on Defence in 2013,³ plans to maintain spending more or less constant in real terms. The third group corresponds to the Southern European countries, which have made the largest cuts and have reduced their defence budgets by 10 to 25 percent since the beginning of the crisis.

Despite the budgetary constraints – and even if most countries spent less than 2 percent of GDP on defence prior to the economic crisis⁴ – the EU member-states remain the second largest defence spenders in the world.

DEFENCE SPENDING IN SOUTHERN EUROPE

In the context of the euro crisis, the Southern European countries are among the most affected. They faced serious sovereign problems in the wake of the banking crisis and a long period of economic recession. Like Ireland, Portugal and Greece had to ask for international financial assistance. Although Spain and Italy did not formally apply for assistance, they faced problems similar to Portugal and Greece: high deficits, rising debts and deep economic recessions. To fulfil the terms of the bailouts, or simply to restore the markets' confidence, all these countries took fiscal consolidation policies as the first priority and approved harsh austerity measures. These austerity programs have heavily affected not only the welfare state, but also the functions of sovereignty – above all, defence.

Since 2008, military expenditures have decreased significantly as Southern European cuts reached the highest levels in Europe. This trend had obvious effects on defence ministries and armed forces, in terms of personnel, investment and deployment.⁵

Still, political and budgetary options are not homogenous across Southern Europe. This stems in large part from the weight of defence industries in the Italian and Spanish economies compared to that of Portugal and Greece. Italy's military industrial base ranks fourth in Europe and fifth in the world,⁶ with Finmeccanica⁷ (its major defence company) accounting for \$24 billion and about 70,470 employees in 2011. The Spanish military industrial base ranks tenth in the world and sixth in Europe⁸ thanks in part to its stake in EADS, one of the leading global aircraft companies.⁹ This means that any major cut in military investment projects in Italy and Spain directly affects their national economies and aggravates the domestic economic

Table 1. Defence Spending (€ millions)

	2005	2006	2007	2008	2009	2010
Portugal	2532	2452	2403	2536	2671	2782
Spain	10500	11506	12219	12756	12196	11132
Italy	26964	26631	20932	22631	21946	21637
Greece	4956	5240	5579	6192	6023	4756

Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

3 'White Paper on Defence 2013,' <http://www.defense.gouv.fr/actualites/articles/livre-blanc-2013>.
4 We should recall that all NATO members are committed to spending, at least, 2 percent of GDP in military expenditures.
5 The investment dimension of national defence budgets includes not only new equipment procurement and R&D expenditure, but also the modernisation processes of equipment already in use.
6 Stockholm International Peace Research Institute, 248.
7 Finmeccanica is one of the largest industrial and high-tech groups in Italy, the 8th major defence company in the world and the third in the EU (after the British BAE Systems and the European consortium EADS).
8 Stockholm International Peace Research Institute, 248.
9 According to the SIPRI Top 100 arms-producing and military services companies, Spain has three companies among the top 100 arms producing corporations in the world: EADS (21), Navantia (55) and Indra (94); <http://www.sipri.org/research/armaments/production/Top100>.

crisis environment. This disparity could explain why the Spanish and Italian governments chose to primarily reduce personnel and operations/maintenance programmes rather than investment programmes, whereas the Portuguese and Greek governments¹⁰ reduced defence expenditures across the board. It also accounts for their different approaches to international cooperation in defence industrial initiatives. Italy and Spain can use their industrial basis to participate and lead transnational cooperation projects; Portugal and Greece are limited to potential expertise niches. These differences, which support some of the budgetary constraint decisions, are thus important to defining each country's international strategy in security and defence issues.

Portugal

Portugal has shown relatively consistent military spending of around €2.5 billion since 2005. Between 2008 and 2010, the defence expenditure reached nearly €2.7 billion, or 1.6 percent of GDP. Since then, under strong pressure from austerity policies, military expenditure decreased by 11 percent in 2011 and by an additional 1.1 percent in 2012.¹¹ These cuts had immediate consequences as the Portuguese government launched a new reform of the defence and armed forces in the framework of the so-called 'reform of the state' process.

Regarding personnel, the Portuguese armed forces experienced substantial reductions in 2003 as Portugal changed from a military system based on conscription to one based on a professional army. In 2010, the three branches of the armed forces accounted for 38,000 troops. However, personnel expenditures still represented 78 percent of defence expenditures in 2011.¹² On-going reform aims to reduce the number of troops to 30,000 to optimise the defence budget structure.¹³

Investment spending decreased from €364 million in 2009 to €296 million in 2010. This meant a fall from 14 percent to 11 percent of military expenditures. The trend worsened in subsequent years as the Ministry of Defence was forced to find a solution to the ongoing military modernisation programs in order to meet budget targets and financial commitments with arm suppliers. It thus postponed payments to arm suppliers and froze or suspended programmes, some of which were already underway (for example, the NH90 helicopters and PANDUR II 8/8 armoured vehicles programmes).

The cuts have also had negative effects at the operational level, namely on the participation of the Portuguese armed forces in international peacekeeping missions. With slight fluctuations, the decreasing tendency of overseas deployment is similar to other Southern European countries. In 2008, Portugal had approximately 700 troops abroad; in 2011, it had approximately 600. In 2012, Portugal withdrew from UNIFIL (Lebanon) and reduced its presence by about 50 percent in ISAF (Afghanistan), yet established a naval presence in EUNAVFOR Atalanta (Somalia). In 2013, Portugal slightly decreased its military peace mission presence to about 550 troops.¹⁴

10 Neither Portugal nor Greece have any military company in SIPRI Top 100 arms-producing and military services companies.

11 J. Hackett, *The Military Balance 2013: The Annual Assessment of Global Military Capabilities and Defence Economics* (Oxford: Routledge, 2013), 96.

12 NATO Public Diplomacy Division, *Financial and Economic Data Relating to NATO Defence*. Communiqué PR/CP (2012) 047-REV1, 13 April 2012.

13 Instituto da Defesa Nacional, *A Defesa Nacional no contexto da reforma das funções de soberania do Estado*, January 2013, <http://www.idn.gov.pt/index.php?mod=008&cod=13032013x2>.

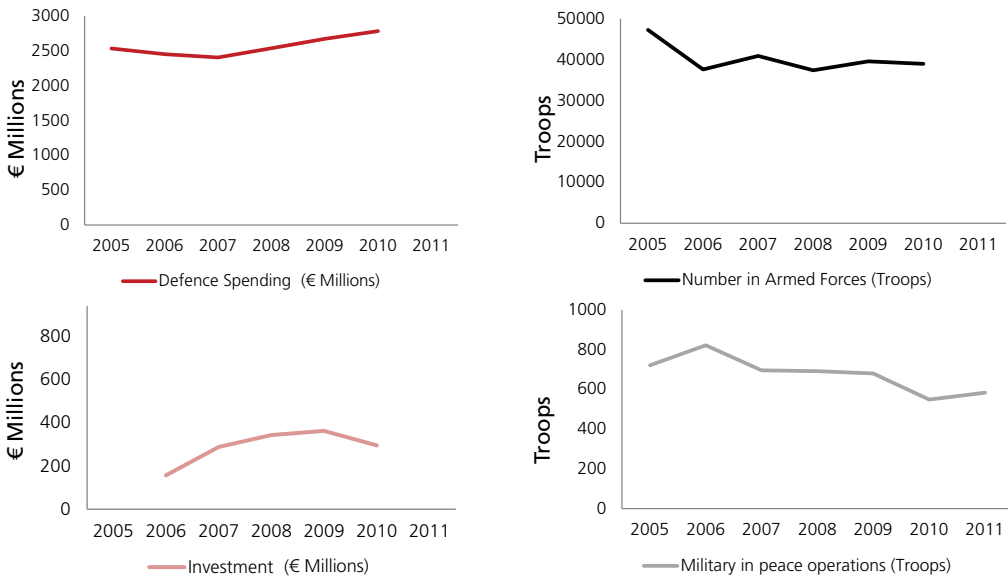
14 Estado-Maior-General das Forças Armadas, <http://www.emgfa.pt/pt/operacoes/mapa>.

Table 2. Portugal

	2005	2006	2007	2008	2009	2010	2011
Number in Armed Forces	47215	37577	40855	37346	39568	38927	
Defence Spending (€millions)	2532	2452	2403	2536	2671	2782	
Investment (€millions)		157	289	344	364	296	
Military peace operations	721	822	696	692	680	549	583

Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

Figure 1. Portugal



Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

Spain

Spain shows a larger and more abrupt reduction in military expenditures amongst the countries of Southern Europe. The reason for this is simple. During a period of economic growth, between 2000 and 2008, Spain developed a policy of international standing and exponentially increased its military spending by about 29 percent – amongst the highest levels in Western Europe. The crisis abruptly reversed this trend, prompting a fall in military spending by about 18 percent between 2008 and 2011 that reduced military spending to one percent of GDP.¹⁵

These cuts have had significant consequences on the Ministry of Defence and the armed forces. In terms of personnel, the cuts began with the civilian personnel of the Ministry of Defence and armed forces branches. Personnel expenditures are a large proportion of the defence budget, which in 2011 represented 65 percent of military expenditures.¹⁶ In 2008, the total number of troops in the armed forces reached 137,800. By 2010, this number had fallen to 129,700. This reduction trend continued in the following years, opening an ongoing debate on reducing manpower, in accordance with the necessary adjustments to changes in the force structure.¹⁷

¹⁵ Stockholm International Peace Research Institute, 178.

¹⁶ NATO Public Diplomacy Division, *Financial and Economic Data Relating to NATO Defence*. Communiqué PR/CP(2012)047-REV1, 13 April 2012.

¹⁷ J. Hackett, 95.

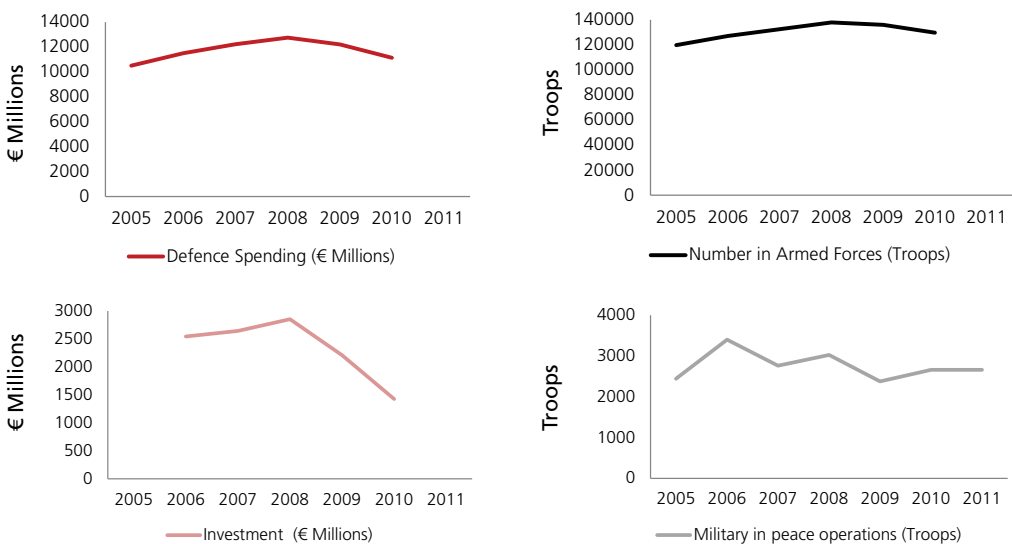
Secondly, the cuts have had consequences on investment. In 2000, Spain launched an ambitious military modernisation program with 19 new equipment programs for the three branches of the armed forces. The crisis prompted a reduction in such investment from €2.85 billion in 2008 to €1.4 billion euros in 2010 – a decline which deepened in the following years. These cuts have imposed heavy restrictions on compliance with the modernisation programs and their financial commitments, which amount to €26 billion.¹⁸ The solution proposed by the Spanish Ministry of Defence involved restructuring debts to arms suppliers and freezing or delaying some programs (such as the Typhoon aircraft and the A400M transport aircraft).¹⁹

Table 3. Spain

	2005	2006	2007	2008	2009	2010	2011
Number in Armed Forces	119832	127000	132400	137800	136000	129723	
Defence Spending (€ millions)	10500	11506	12219	12756	12196	11132	
Investment (€ millions)		2544	2644	2851	2208	1427	
Military peace operations	2442	3400	2762	3026	2378	2660	2662

Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

Figure 2. Spain



Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

18 Stockholm International Peace Research Institute, 178.
 19 J. Hackett, 95.

Finally, the spending cuts have affected military operations, as evidenced by the reduction in overseas deployment and commitment of Spanish armed forces to the international peacekeeping missions of NATO, EU and UN. Spain had some 3,400 military troops deployed in 2006, 3,000 in 2008 and 2,600 in 2011. This downward trend continued as it withdrew 50 percent of its troops from UNIFIL (Lebanon) and enhanced the planned withdrawal from ISAF (Afghanistan).

Italy

The economic and financial crisis had a direct impact on the Italian defence expenditures. SIPRI estimated a 16 percent real term drop in Italy's military spending between 2008 and 2011, with major cuts falling on operation/maintenance, a restriction on recruitment and a postponement of equipment programmes.²⁰ In 2008, Italy had a defence expenditure of €22.6 billion (1.4 percent of GDP). By 2010, the figure had dropped to €21 billion. However, the first major budget reduction occurred in 2006-2007, moving from a defence spending of €26.6 billion, in 2006, to €20.9 billion euros in the 2007.

The personnel of the Italian armed forces decreased from 307,000 troops in 2006 to 191,000 troops in 2010. Personnel costs represented 75 percent of defence expenditures in 2011.²¹ This prompted the Italian government to undertake a rationalisation process of defence expenditures in 2012, which included a proposal to cut troops by 30,000 during the next decade.

As for investment, the rationalisation proposal included the postponement of some procurement programmes. One example is the reduction in Italy's planned order for F-35 fighter jets, one of the world's costliest defence projects, from 131 to 90 aircrafts.²² Still, Italy remains the second largest EU partner after the UK in this transatlantic programme. Other major multinational procurement programmes such as Eurofighter, NH90 and FREMM have not yet been reviewed.²³

Regarding international missions, Italy has thus far tried to maintain its commitments intact. It maintained an average commitment of 6,700 military in peacekeeping operations in 2010-2012, with its main missions being ISAF (Afghanistan, 4,000 troops), UNIFIL (Lebanon, 1,150 troops) and KFOR (Kosovo, 869 troops).

Table 4. Italy

	2005	2006	2007	2008	2009	2010	2011
Number in Armed Forces	324984	307000	195268	186956	192186	191231	
Defence Spending (€millions)	26964	26631	20932	22631	21946	21637	
Investment (€millions)		2351	2936	3302	2545	3140	
Military peace operations	8425	6748	7951	5047	7884	6790	6729

Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

²⁰ Stockholm International Peace Research Institute, 177.

²¹ NATO Public Diplomacy Division, *Financial and Economic Data Relating to NATO Defence*. Communiqué PR/CP(2012)047-REV1, 13 April 2012.

²² 'Italy Slashes Lockheed Martin F-35 Order in Defense Shakeup,' Bloomberg, 15 February 2012.

²³ The Italian example shows the impact of having a large national defence industry. Italy sacrifices the F-35 program, but retains the FREMM Frigate program and the NH-90, where its industry (Finnmeccanica and Fincantieri) is heavily involved.

Figure 3. Italy



Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

Greece

Greece is the second largest defence spender amongst the 27 NATO countries, after the US. It also has one of the highest 'military burdens' in the EU. Its military budget always exceeds 2 percent of GDP, and between 2008 and 2010 this budget decreased from 6,200 million euros to 4,750 million euros. Greece's particular geostrategic context contributes to this fact. Greece has a strategic position in the Mediterranean. It has an Exclusive Economic Zone (EEZ) and has to patrol thousands of islands and porous borders to limit illegal immigration and organised crime. It also needs to promote stability in the Balkans, Black Sea and Eastern Mediterranean. As for its long-running tensions with Turkey,²⁴ relations have improved in recent years. The Greek defence budget for 2012 fell 16 percent in nominal terms, and it included plans for cuts in coming years as part of the austerity package.²⁵

Greece has also restructured its armed forces with regard to personnel. The new force structure for 2005-2020, which predicts a reduction in troops from 178,500 to 142,000 (mainly in the army) was approved at the end of 2003.²⁶ Greece reviews the definition of the force structure every five years. In 2010, it made major cuts in the number of troops, from 133,700 in 2008 to 124,200. More than 70 percent of the Greek budget relates to personnel costs, which account for around 3 percent of Greece's total labour force. As a proportion of its economy, Greece spends more on its soldiers than any other EU member-state.²⁷

²⁴ Namely, the Aegean Sea disputes (a complex of maritime, air, territorial and boundary disputes) and the conflict over Cyprus.

²⁵ Stockholm International Peace Research Institute, 176.

²⁶ It should be highlighted that in 2001 Greece ended the state of war and mobilisation of the armed forces resulting from the 1974 Turkish invasion of Cyprus.

²⁷ NATO Public Diplomacy Division, *Financial and Economic Data Relating to NATO Defence*. Communiqué PR/CP(2012)047-REV1, 13 April 2012.

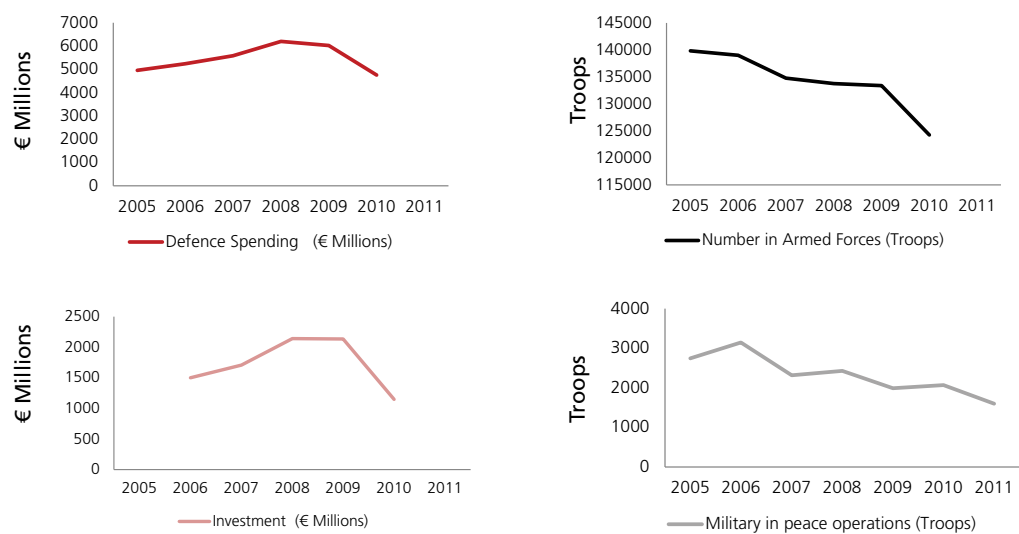
Greece has also reduced its presence in international missions. In 2011, the number of troops abroad fell from 2,400 in 2008 to 1,600. Cyprus houses the major Greek military contingent with a total of 1,150 troops. Greece has reduced the number of troops in other international missions, namely ISAF (Afghanistan, from 137 troops in 2008 to 12 troops in 2012), EUFOR (Bosnia-Herzegovina, from 45 troops in 2008 to 25 troops in 2012), KFOR (Kosovo, from 744 troops in 2008 to 152 troops in 2012) and UNIFIL (Lebanon, from 192 troops in 2008 to 51 troops in 2012).

Table 5. Greece

	2005	2006	2007	2008	2009	2010	2011
Number in Armed Forces	139809	138994	134759	133775	133385	124266	
Defence Spending (€ millions)	4956	5240	5579	6192	6023	4756	
Investment (€ millions)		1500	1707	2140	2133	1148	
Military peace operations	2740	3141	2313	2427	1985	2065	1597

Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

Figure 4. Greece



Source: Information gathered by the authors according to the European Defence Agency (EDA) Defence Data Portal, available at <http://www.eda.europa.eu/info-hub/defence-data-portal>.

With regard to investment, Greece was one of the fourth-largest arms importers between 2003 and 2007, behind China, India and United Arab Emirates.²⁸ The Greek purchase of new military equipment is particularly high compared to the average of for EU countries (around 30 percent of defence expenditures), with France and Germany amongst the main suppliers.²⁹ The 2011-2015 Arms Procurement Plan has fallen by 70 percent, in comparison to that of 2006-2020.³⁰

According to this brief analysis, Southern European countries have dramatically cut military spending since 2008 in the midst of an economic crisis environment and austerity. This decrease implies not only a reduction in manpower, but also a decline in investment – with consequences for modernisation and acquisition of new military capabilities – and a diminished participation in international peacekeeping missions.

Since this reduction will not likely change (and may in fact fall even further) in the short term, one can expect consequences at two levels. At the national level, Southern European countries must carefully define their security and defence policy priorities regarding strategic objectives and international cooperation, either in terms of force generation or investment projects. At the international level, Southern European countries must limit their disposition to assume international military commitments within the organisations in which they participate (namely UN, NATO and EU), which will carry obvious consequences for their roles as international security providers.

A WAY OUT? A COMMON EUROPEAN RESPONSE

Despite national particularities, the four southern European countries have shown similar trends in their defence and armed forces sectors under austerity policies. The fall in defence expenditures presents the first trend. With the exception of Portugal, Southern European countries have reduced their defence expenditures in real terms over the past five years. The second trend is the overall reduction in manpower, both civilian and military. Whilst the international trend for reduced manpower stems from technological change, adjustment and modernisation of the armed forces structure and private sector contracting, the trend in Southern Europe has resulted mainly from the economic crisis. The third trend is the decrease of investment, procurement and R&D. All Southern European countries have frozen or suspended some of their military modernisation programmes, although to different degrees between the countries whose defence industries have an important impact on national economies (Italy and Spain) and the others (Portugal and Greece). The final trend is the reduction of military peacekeeping deployments. All Southern European countries decreased the number of troops in international missions, which carried consequences for these countries' contributions to international operations, both at NATO and EU level, and also reduced their role as international security providers.

The economic crisis, austerity measures, the reduction of military expenditures and the downgrading of the political priority defence can only be overcome by taking the context of crisis as an opportunity. And if this is true for the EU, it is even truer for Southern Europe. Taking advantage this opportunity could occur at two levels. At the national level, through the promotion of structural reforms of the defence and armed forces that allow for the same level of ambition, but that optimise resources – in other words, doing more with less. This would imply an improvement to the ratio between support and operational military, a rationalisation of available resources and a more balanced budgetary structure, with a reduction of personnel cost and an increase in investment, R&D and operations/maintenance expenditures. The reforms should have as a major objective to generate a more deployable armed forces, capable of responding to the current security and defence environment.

28 Until 2006, part of the Greek procurement expenditure was made under a legal and financial framework that allowed its non-inclusion in the public debt.

29 According to SIPRI, from 2000 to 2011, Germany accounted for 23 percent of Greece's total arms imports, next to the US and ahead of France, which was third at 12 percent.

30 Stockholm International Peace Research Institute, 176.

The current economic and financial crisis also constitutes an opportunity to deepen defence cooperation between EU member-states. At the European level, with the overall decrease of defence expenditures, defence cooperation should be seen as a way to improve capabilities in any level of spending, particularly in investment and force generation. In terms of investment, in the 2010, the EU member-states chose the 'pooling and sharing' path at the Ghent framework.³¹ This process is based on bilateral or multilateral initiatives among member-states, but outside the decision-making processes in CSDP framework (particularly 'permanent structured cooperation').³²

The 'pooling and sharing' project is a step in the right direction, but it is a long-term process that has yielded little or no practical results. Some preconditions are needed for the success of 'pooling and sharing' enterprise. First, all member-states that show political will to participate should be included. Second, those willing to participate should do so within the CSDP institutional framework. With both conditions met, there would be no substantial difference between 'pooling and sharing' and 'permanent structured cooperation', the specific cooperation mechanism for CSDP as defined in the Lisbon Treaty.³³ In this case why not go to the Lisbon Treaty and re-launch the 'permanent structured cooperation'? ■

31 Biscop, Sven and Coelmont, *Pooling & Sharing: from Slow March to Quick March?* Egmont Security Policy Brief No. 23, May 2011; B. Giegerich, 'Budget Crunch: Implications for European Defence,' *Survival* 52/4 (2010).

32 Article 42 (6) of the Treaty on European Union (TEU).

33 Teixeira, Nuno Severiano, *European Defense: Past Legacy, Present Changes, Future Challenges*. EUI Working Papers RSCAS 2012/03, January 2012.