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ARMAMENT AND TRANSATLANTIC RELATIONSHIPS

The Italian perspective

By

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*The views expressed here are solely those of the author.
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Comment

ABSTRACT

Starting from the alleged accusation from the US that Europe is trying to prevent their participation in EU defence industrial projects via PeSCo and EDF, this paper provides an overview of the Italian position with regards to transatlantic relationships and defence industry. Since the end of World War II, procurement cooperation between Italy and the US have constituted an important part of their bilateral relations, which has been recently reconfirmed by the current Italian government. Nonetheless, Italy is also one of the main supporters of European integration in the defence field, even if it requires keeping an eye on its historical partner.

Keywords: *Transatlantic relations, Defence industry, EDF, PeSCo, Italy*

Almost a year ago, Ellen Lord, US Under Secretary of Defence for Acquisition and Sustainment of the US Department of Defence, and Andrea Thompson, Under Secretary of State for Arms Control and International Security of the US Department of State, sent a letter to then-High Representative/Vice-President (HR/VP) of the European Commission Federica Mogherini, claiming that the Permanent Structured Cooperation (PeSCo) and the European Defence Fund (EDF) were potential discriminatory tools towards US defence industries. In their view, both PeSCo and the EDF greatly limit American participation in the EU defence industrial projects, and in the available funds.¹ The position of the Republican administration towards the two initiatives has also been further expressed during the NATO-Industry Forum held in Washington in November 2019, when the US Deputy Defence Secretary, David Norquist, affirmed that American participation in the EDF should be granted, otherwise the EU initiative would lead to unnecessary duplication.² Although in the past decades the US have been constantly asking EU allies to do and deliver more in defence, now that Europeans finally decided to try to boost their industrial defence capacity, the US are claiming consideration. As HR Mogherini replied to the 1st May letter, these initiatives have to be understood as a way to strengthen the transatlantic cooperation. Moreover, although intended also to increase the capacity of EU defence industries, participation of third entities is not forbidden, and bilateral agreements are not impacted. Nonetheless, not all EU partners reacted in the same way to the critics from Washington, due also to different national ties with the US. In this, two potential contradictory interests are at stake: on one side the development of a truly EU defence industry and armament integration; on the other side, maintaining the transatlantic ties with the US. Italy's reaction has been pragmatic, trying to maintain a satisfactory relationship with the US, while promoting a deeper integration at EU level.

¹ Lord, E., & Thompson, A. (2019): Letter to Federica Mogherini, dated 1 May 2019

² Gould J. (2019): *Pentagon presses for US access to special EU defense projects*. DefenceNews, 14 November 2019, <https://www.defensenews.com/congress/2019/11/14/pentagon-presses-for-access-to-european-defense-projects/>

ITALIAN POSITION ON PESCO AND EDF PARTICIPATION

Both PeSCo and the EDF are results of intense work at EU level, to provide the Union as a whole with (some) of the assets necessary to have a full spectrum of military capabilities. This would allow the EU not only to reach unprecedented levels of strategic autonomy, but also to better exploit the potential of European defence industries. From an Italian perspective, both PeSCo and the EDF are seen as positive instruments to enable the Union to reach its goals.

A wider cooperation at EU level also in the defence sector is one of the objectives of Italian foreign policy. Indeed, out of 47 PeSCo projects, Italy actively participates in 26 and has the lead in nine.³ Moreover, when the Parliament was asked to consider the proposed regulation of the EDF in 2018, it strongly made the point that in order to get access to the Fund, the proposed projects should be presented by at least three Member States.⁴

Furthermore, already during this first phase of the definition process of the EDF's regulatory framework, Italy strongly supported the possibility for third entities and states to join the programmes. The Italian position, representative also of the Northern countries' and of the Netherlands' positions, was open to participation by both industries based on a third states' territory and to those based in the EU but controlled by third entities. Nonetheless, Italy only partly succeeded in its goal: industries based in the EU but controlled by third entities shall be able to participate in the EDF projects, but only under certain conditions. Entities based in third states might join the project, again according to strict conditionality, but they will not have access to the available EU funds.⁵ It should be noted that the consent given to entities based in third countries to participate in the projects is primarily perceived in Italy to be in line with the traditional call for EU-NATO cooperation, that is to say a possibility to develop the capabilities to be employed in transatlantic cooperation and to maintain ties with the US.

³ Consilium, *Permanent Structured Cooperation (PESCO)'s projects – Overview*, <https://www.consilium.europa.eu/media/41333/pesco-projects-12-nov-2019.pdf>

⁴ Camera dei Deputati (2018): Documento approvato dalle Commissioni riunite IV (Difesa) e X (Attività produttive) della Camera dei deputati: Fondo europeo per la difesa (COM(2018) 476 final), <http://documenti.camera.it/leg18/resoconti/commissioni/bollettini/pdf/2018/09/06/leg.18.bol0053.data20180906.com0410.pdf>

⁵ Marrone A., & Sartori P. (2019): Recenti sviluppi verso la difesa europea: opportunità e sfide per l'Italia, Osservatorio di Politica internazionale, Senato, January 2019, <http://www.parlamento.it/application/xmanager/projects/parlamento/file/repository/affariinternazionali/osservatorio/approfondimenti/PI0148.pdf>

TIES WITH THE US

The Italian position on third countries' participation reflects the importance given to the industrial involvement mainly with American and British partners, and this could not have been different considered the ongoing close relationships. For this reason, one could have thought that the letter of 1 May to Federica Mogherini would have caused concern, or at least that it would have been addressed in the national media. On the contrary, the US claims have been poorly discussed among the public opinion, and interested mainly experts and insiders.⁶ This might be understood in two ways. On one hand, the Italian public debate on defence issues is generally limited and this is no exception. On the other hand, even though transatlantic cooperation remains unwavering, the achievement of further integration at EU level and the development of a truly European defence cooperation, both industrial and military wise, is of paramount importance for Italy. Nonetheless, in this process, Italy will keep an eye on its historical partner.

It is important to recall a few aspects, other than the industrial ones, to understand the Italian position regarding armament and transatlantic relationships with the US.

From a political point of view, their respective agendas regarding international security partly coincide. As other NATO member states did, Italy committed to reach the 2 percent threshold on spending in military budget, a target that, although delayed, is among the Ministry of Defence's priorities. Moreover, Italy is the second largest contributor to NATO military missions and operations after the US, underlining the high value Rome attributes to transatlantic relations. Nonetheless, divergences also exist, for example on Russia, with which Italy tries to maintain good bilateral relationships.

When considering bilateral relations in defence between Italy and the US, it is also necessary to recall the existing agreements on the American use of military bases on the Italian soil. Due to Italy's geographical position and the presence of several interests at stake in the Mediterranean, US military bases in Italy are considered of strategic importance. Moreover, among the several US military bases in Italy, Sigonella deserves a

⁶ See for example: Romano S. (2019): Difesa, perché per l'Ue è importante non appiattirsi sugli Stati Uniti, Corriere.it. from https://www.corriere.it/esteri/19_giugno_15/difesa-perche-l-ue-importante-non-appiattirsi-stati-uniti-2ca273b2-8f9f-11e9-88d7-b66be71f5fe3.shtml

special mention. Indeed, the US base in Sicily ensures support to US and NATO operations in the Middle East, North Africa and in the Mediterranean.

Yet the bilateral armament partnership with the US, which mainly concerns the aeronautic sector, is long-lasting and it is going to endure. The ongoing, close relationship started right after the end of World War II and it has political, economic and industrial repercussions. To illustrate this, suffice it to say the confirmation by the current government of the Italian participation to phase 2 of the F-35 programme. Despite harsh debate in the recent past, that also involved discussion on additional costs and delay in the performance of the project, the Italian participation has been supported by a bipartisan agreement. Among the reasons for such a decision, there certainly is a possible increased opportunity for the Italian industries. The ambition of the Defence Minister, Lorenzo Guerini, is that the industrial site of Cameri will become fully complementary to the American site in Fort Worth for the production of F-35s.⁷ According to the last estimates of the Italian Court of Auditors on the general management of the State budget, so far the F-35 programme has cost around €5 billion, including the costs for the adaptation and realisation of the necessary management infrastructures, equipment and support of the fleet, as well as the costs for the adaptation of the Cameri industrial site. The Italian participation to the F-35 programme generated a return on industrial investments of more than €3 billion, with an estimation of future returns of around €15 billion. These gains are distributed among Leonardo Spa – that gets around 80 percent of the total – other large enterprises and small and medium-sized enterprises (SME) that obtain around 10 percent each. As far as employment returns are concerned, there are currently 2,119 workplaces, with potential future estimations between almost 3,600 and 6,400 workplaces. Differences on future workplaces and the amount of returns will depend on whether Italy will be responsible, apart from the aircraft's wing production, for the management of just the Italian fleet or for the Euro-Mediterranean one.⁸ Apart from direct and indirect gains, the Italian industrial participation in the production and

⁷ Camera dei Deputati (2019), Commissioni riunite (IV Camera e 4° Senato), Resoconto stenografico, Seduta n. 13 di Giovedì 28 Novembre 2019,

https://www.camera.it/leg18/1058?idLegislatura=18&tipologia=audiz2&sottotipologia=audizione&anno=2019&me se=11&giorno=28&idCommissione=04c04&numero=0013&file=indice_stenografico

⁸ Camera dei Deputati (2019), Il programma Joint Strike Fighter – F35, 22 November 2019, <https://www.camera.it/temiap/documentazione/temi/pdf/1193084.pdf?1587652983693>

management of the F-35 also constitutes an opportunity for national industries to develop and maintain high-technological know-how particularly in stealth capacities.

Nonetheless, in this industrial relationship the US has the highest revenues, even by taking into account the Italian defence industries operating in the US and the American ones present on the Italian soil. In Italy, some of the American companies operating in the country such as Avio Aero and its controlled Sand Casting both part of GE Aviation, Boeing Italy, and Northrop Grumman Italia, respectively employ 4,000; 6,900; and 200 direct workers. In the US, the Italian-controlled companies operating in the defence sectors are Beretta Holding, Fincantieri Marine Group, and Leonardo. Although it is possible to assess the number of workers in the US for the latter – Leonardo DRS has 7,000 employees – it is not possible to reach an equal degree of precision for Fincantieri nor for Beretta Holding. Fincantieri offers a total of 2,000 jobs in both the US and Canada, comprising those for Fincantieri Bay Shipbuilding that produces commercial vessels. As for Beretta Holding, it employs almost 3,000 at global level with no geographical distribution available. However, 50 percent of the company’s revenues – comprising commercial and branding activities – come from North America.⁹

As far as defence imports volumes are concerned, in the period 2015-2019, Italy’s ratio of defence imports from the US reached 62 percent of all defence import,¹⁰ being the second largest EU arms importer from the US.¹¹ Conversely, in 2019 Italy has been the tenth exporter to the US out of a total of ten exporters, representing 0.5 percent of total defence imports.¹²

CONCLUSIONS

Transatlantic relations concerning armament procurement will most probably remain as they are at the moment. Indeed, the possible repercussions that PeSCo and the EDF might have on the EU defence industrial market, and on the transatlantic relations as a consequence, are far from happening. This is even truer if one considers that the budget

⁹ Total revenues for 2018 reached €678.2 million: <http://www.berettaholding.com/en/financial-highlights>

¹⁰ Wezeman P.D, Fleurant A., Kuimova A., Lopes da Silva D., Tian N., & Wezeman S.T. (2019), “Trends In International Arms Transfers, 2019, SIPRI Fact Sheet”, March 2020, https://www.sipri.org/sites/default/files/2020-03/fs_2003_at_2019.pdf

¹¹ Taylor P. (2020): *A Minefield of Opportunity. Transatlantic Defence in the Trump Area*, Report Spring 2020, Brussels, Friends of Europe.

¹² SIPRI, importer/exporter TIV tables, USA, <http://armstrade.sipri.org/armstrade/page/values.php>

for the EDF is very likely to be strongly reduced from the initial proposal of €13 billion, thus most probably generating a smaller outcome than initially expected. Moreover, several further issues still need to be discussed and agreed at EU level, like how to regulate export of equipment jointly developed with EDF support, or how to deal with those industrial realities that would be negatively impacted from the integration process. Nonetheless, the path towards an integrated and truly European defence industry and market is going to make an important step forward with the EDF, and each EU member state, when this will become a reality, should be ready to face its consequences. Italy made the decision of fostering truly European integration and it will continue to support this path, although having a clear view of the interests at stake in the process of EU integration. Given the importance of transatlantic armament relationships, so far it tried to maintain an inclusive approach, but in the long run an integrated and truly European defence industry and market could mean reducing industrial ties with the US. ■

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ARES GROUP

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

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