Armament Industry European Research Group

WHAT ARE THE MAIN DRIVERS OF MEMBER STATES' DEFENCE PROCUREMENT PRACTICES?

The Greek Case

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ABSTRACT

Greece, a country with acute fiscal constraints, is currently pursuing an extensive military modernisation and upgrading program to meet the security challenges it faces by country specific threats. The *General Directorate of Defence Equipment and Investment* is the body responsible for its arms acquisition projects. The most important in terms of monetary value recent procurement programs are implemented through G2G agreements. Geopolitical considerations and the need for external balancing is one of the principal determinants in the arms acquisition decision making while fiscal space emerges as the unsurpassable overriding constraint.

Keywords: Greece | Arms procurement

INTRODUCTION

Irrespective of the period considered, Greece's defence burden, i.e. defence spending as a share of GDP, stands out as the highest among the EU27. For instance, during 2010-23 Greece's average annual defence burden stood at 2.8% of GDP compared to an EU27 average of 1.4% (2000-23: 2.9% and 1.4% respectively)[1]. The average annual share of equipment expenditure in the total defence budget during 2000-23 was 15.6% vis-à-vis a NATO average of around 17.5%[2]. Given its feeble domestic defence industrial base[3], Greece is a major arms importer. During 2000-23 it ranked as the fifteenth largest globally. For all intents and purposes, arms imports can be construed as representing almost the entire weapons procurement and the concomitant equipment expenditure of the defence budget.

DRIVERS AND CONSTRAINTS

The comparatively high levels of defence expenditures mentioned above, are driven exclusively by country specific defence needs and security considerations. In view of this, the new geopolitical and security environment in Europe that emerged following the February 2022 Russian invasion of Ukraine has not affected in any profound way Greece's defence needs, defence policy orientations and priorities and weapons procurement practices. Albeit a NATO member, Greece's main external security threat emanates from Türkiye, also a member of the NATO Alliance and a long-standing candidate country for EU accession[4]. Their most recent military standoff was in the summer of 2020, when apart from saber-rattling the two countries dangerously edged towards a full-scale armed confrontation[5]. As a result, Greek defence spending increased in 2021 by 36.9% (from $5.9 bil. to $8.1 bil.)[6]. The main driver of this increase was equipment expenditure that quadrupled (Table 1)[7].

By far the most prominent procurement programs that were implemented following the 2020 Greek-Turkish crisis, were the urgent purchase of twenty-four Rafale fighters[8] and three FDI[9] frigates from France. A defence agreement between Greece and France, sealed this largest

[1] SIPRI data
[2] NATO data
[3] See: Kalloniatis & Kollias, 2020; Ploumis, 2017.
[4] Historically, Greek-Turkish relations have oscillated from acute militarized tension to détente and diplomatic cordiality. For the many issues that mar their bilateral see among many others: Aydin & Ifantis, 2024; Choulis *et al*. 2022; Stergiou, 2022. For Türkiye's EU candidacy see among many others Kollias, 2023.
[5] See for instance Grigoriadis, 2022.
[6] SIPRI data, in constant 2022 USD
[7] The ten-year long sovereign debt crisis and the deep economic recession resulted in many and significant gaps in national defence.
[8] Twelve used ones from the inventory of the Armée de l' Air and twelve new ones.
[9] Frégate de Défense et d'Intervention.

Greek arms procurement program of the last decades. As stressed by Perot (2023), the cornerstone and by far the most important provision in this *strategic partnership for defence and security cooperation* between Greece and France is the mutual defence clause whereby both countries commit to mutual defence in case of an armed attack against their respective territories. The agreement not only reflects the two countries' geopolitical alignment but most importantly Greece's profound need for external balancing vis-à-vis Türkiye[10].

Over many years, Greece has consistently and systematically pursued, a two-pillar external balancing strategy. One pillar of this strategy is the United States, and the other is the EU. France emerges as the predominant constituent of the European pillar of Greece's external balancing strategy vis-à-vis Türkiye. A vivid reflection of this two-pillar based external balancing strategy pursued by Greece is the fleet of the Hellenic Airforce (HAF). Predominately, the fighter planes in HAF's inventory are US build[11]. However, alongside these, HAF has consistently operated a strong French build fleet of fighter aircrafts[12].In fact, such external balancing considerations have often been and remain in the post-February 2022 period the most salient characteristic of arms procurement decision making by successive Greek governments. The term *weapons procurement diplomacy* encapsulates this important dimension in arms purchasing decisions. That is, using weapons acquisitions as a leverage to reinforce ties with countries that act as security providers to Greece given the country specific external security threats it faces. Moreover, inherent in this two-pillar strategy is the need for diversification of suppliers of important defence equipment and systems. Apart from enhancing security of supply during a militarized crisis and confrontation, such diversification increases the degrees of freedom in pursuing Greek national interests and defence objectives.

Table 1: A summary view of equipment expenditure shares and percentage changes[13]

	Equipment expenditure as % of total defence spending	% change in equipment expenditure	% change in defence spending
2000-09	14.9%	15.9%	2.5%
2010-19	10.9%	-3.2%	-4.6%
2020	10.7%	-1.2%	6.7%
2021	37.2%	376.5%	36.9%
2022	42.3%	22.7%	8.1%
2023	25.1%	-51.0%	-17.4%

[10] Given that both Greece and Türkiye are NATO members, Greece cannot invoke the provisions of Article 5 of the Treaty if needed to do.
[11] It includes various types of F-16 fighters including the most recent Viper version, Phantom F-4Es (to be retired), and towards the end of the decade F-35s currently in the final stages of procurement negotiations.
[12] Currently Mirage 2000-5 and Rafale and in the past Mirage F-1s and Mirage 2000.
[13] Source: SIPRI & NATO data (2023 estimate). For 2000-09 and 2010-19 the figures are annual averages.

Although the country specific national defence needs stemming from acute external security challenges are the principal source that drive the demand for weapons systems and armaments, the Greek economy emerges as the formidable and unsurpassable constraint for such expenditure[14]. The recent sovereign debt crisis and the ensuant prolonged and deep economic recession heavily impacted public spending. Expectedly, defence expenditures sharply declined. Compared to the start of the crisis in 2009, defence spending in 2018 was 40% lower in real terms. The cumulative decrease in the first four years of the sovereign debt crisis was more than 60%. Similarly, equipment spending in 2018 was lower by as much as 76% compared to 2009. As a share of total defence spending, equipment expenditure declined from an annual average of 14.9% during the decade before the economic crisis (2000-09) to 10.9% in the next decade (2010-19) (Table 1). It exponentially increased following the 2020 crisis with Türkiye as Greece hastily implemented arms procurement programs[15] to close some of the many defence gaps caused by the prolonged economic crisis. The share of equipment spending increased from 10.7 % in 2020, to 37.2 % in 2021, to 42.3 % in 2022, to an estimated 25.1 % in 2023. In real terms, from 2020 to 2023 it increased by more than 300 % (Table 1). Nonetheless, despite these recent sharp increases in such spending, it is extremely doubtful that this pace is sustainable irrespective of the pressing defence needs to modernise the aged and antiquated stock of weapons systems and equipment currently in the inventory of the Greek armed forces. As can be seen in Table 1, in 2023 equipment spending decreased by 51 % compared to the previous year's spending. Severe fiscal constraints in the form of a very high public debt[16] and the need to continue recording primary surpluses to remain on the path of public debt reduction, do not allow for the fiscal space[17] necessary to implement all the required extensive investment in modernising military capabilities. Indeed, long-standing new weapons procurement and/or upgrading and modernisation programs are pending for many years due to the fiscal constraints the country faces[18].

[14] See for instance Kollias *et al*. 2016.

[15] Such as the purchase of the Rafale fighters and the FDI frigates from France already mentioned. They were not the only ones as other less prominent arms procurement programs were also implemented or are in the stage of being implemented such as for example DM2A4 Sea Hake heavyweight torpedoes, SPICE guidance kits for converting unguided bombs into precision-guided bombs, Patroller drones using NATO's NSPA, Heron-1 MALE UAVs and others.

[16] As a share of GDP, Greek public debt is the highest in the EU27. For 2023, IMF estimates general government gross debt at 168.8% of GDP.

[17] On the issue of fiscal space and the constraints it imposes on public outlays to defence in the case of Europe see Christie, 2019 and Dorn *et al.* 2024.

[18] Such a representative case is the mid-life upgrading and modernisation of the MEKO-200HN frigates serving since the mid-1990s that has many times been announced but has yet to materialize mainly due to lack of funding.

ARMS SUPPLIERS AND PROCUREMENT PRACTICES

The General Directorate of Defence Equipment and Investment is the body responsible for overseeing and implementing all arms procurement projects. As previously pointed out, Greece relies on arms imports since domestic defence production capabilities remain limited[19]. The almost exclusive arms suppliers to Greece are West-European countries and the USA (Table 2). The cumulative share of imports from the EU27, USA and the UK accounted for 93.8%, 99.1% and 97.1% of total imports during 2000-23, 2010-23 and 2020-23 respectively. Focusing on the EU27, by far the two largest exporters of weapons systems to Greece are France and Germany (Table 2). For instance, during 2010-23 their share in total EU27 exports was 96%. In more recent years, the share of arms imports from France is by far the largest accounting for around 62 % of total imports and 88% of all intra EU27 arms exports to Greece (Table 2). As previously mentioned, this is the result mainly of two major procurement programs hurriedly implemented immediately after the 2020 Greek-Turkish crisis: a) the purchase of the twenty-four Rafale fighter jets in a government-to-government (G2G) deal since it included the sale and transfer of twelve units already operating with the Armée de l'Air and b) the procurement of three FDI frigates[20] currently at different construction stages at the shipyards of Naval Group. The latter deal includes the purchase of Aster 30 surface-to-air missiles from Naval Group's weapons partner MBDA. The cost of the frigate acquisition program is estimated at around €3 billion. Although in principle the choice of the FDI frigate was the result of competitive bidding and evaluation of antagonistic proposals by other established European shipbuilders that offered competitive frigate designs, the decisive factor that tilted the scales in favour of Naval Group's frigate was France's willingness to sign the previously mentioned defence agreement with Greece and formally undertake the role of a security provider[21]. Although in the past for such major naval procurement contracts, Greece sought off-sets in the form of local construction by the domestic shipbuilding industry[22], in the case of the FDIs, local participation in the construction is limited to some parts of the ships' hull due to a) the hurried nature of the purchase and b) the derelict state of local shipbuilding yards following years of abandonment.

[19] Albeit in the past naval vessels such as frigates, submarines, fast attack and patrol boats were built under license by local shipbuilders. See: Kalloniatis & Kollias, 2020.
[20] With an option of a fourth one.
[21] Symbolically, the deal to purchase the FDI frigates and the signing of the defence agreement took place at the Élysée Palace with both the French leader President Macron and the Greek Prime Minister Mitsotakis presiding over the ceremony. While for Greece the benefits of external balancing were the driving factor, for France the deal was seen at the time as a rebound from the cancellation, following the announcement of the AUKUS partnership, of the contract to deliver twelve submarines to Australia, albeit the monetary value of the two contracts is by no means comparable.
[22] Under license, local construction of major naval vessels in the past included frigates of the Meko-200HN class, Type 214 submarines, Roussen class fast attack missile boats. See Kalloniatis & Kollias, 2020.

Table 2: Sources of arms imports[23]

Shares of major arms suppliers			
	2000-23	2010-23	2020-23
USA	38.7%	20.4%	15.6%
EU27	51.7%	71.5%	70.4%
Germany	26.2%	41.7%	4.2%
France	15.7%	26.9%	62.1%
UK	3.4%	7.2%	11.5%
Others	6.2%	0.9%	2.6%
Intra EU27 shares of arms exports			
	2000-23	2010-23	2020-23
Germany	50.7%	58.4%	5.9%
France	30.4%	37.6%	88.2%
Netherlands	9.9%	2.7%	3.1%
Italy	5.2%	1.2%	2.8%
Sweden	3.8%	-	-

Given the significant fiscal constraints already mentioned, the financing dimension in procurement is a prime criterion in the decision-making process for arms acquisition that includes both new weapons systems as well as used ones from the inventory of other countries[24]. Because of the omnipresent and overriding economic constraints, Greece makes extensive use of facilities such as the Excess Defense Articles (EDA) program operated by the USA that reduce the total financial burden of arms acquisition. The value of military equipment transferred to Greece under the EDA facility since 2016 is estimated in the region of more than $282 million[25]. In a similar vein, government-to-government (G2G) agreements under the Foreign Military Sales (FMS) system operated by the USA offers in principle more favourable financing terms. Currently, the value of the active G2G arms acquisition programs is estimated at $11.3 billion. It includes the procurement of major systems such as anti-submarine helicopters of the MH-60R “Seahawk” type, the upgrading of F-16 fighter jets to the Viper configuration. The more recent purchase deal under the FMS provisions was the agreement to acquire thirty-five Black Hawk utility helicopters at an estimated cost of around $2 billion. Future FMS G2G procurement programs currently at various stages of negotiations include the purchase of the fifth generation F-35 fighter aircraft and drones of the MQ-9 Reaper type.

[23] SIPRI data

[24] For example, the purchase of 24 Rafale fighter jets from France in 2021 included the sale of twelve from the inventory of the Armée de l' Air.

[25] The military equipment transferred under the EDA program includes 1,200 M-1117 armored vehicles, 70 Kiowa and 10 Chinook helicopters, four Mark V special operations crafts, four Island Class Patrol Boats.

In addition to the above FMS implemented arms acquisitions, a couple of other major procurement programs have been announced or are sluggishly progressing such as the planned acquisition of three to four corvettes. Competitive corvette designs are being evaluated although the program seems to have been stalled and potentially could be canceled due to funding constraints. Noteworthy is the fact that at the same time Greece also participates in PESCO's European Patrol Corvette (EPC) project. However, thus far there is no firm commitment by Greece on the number of EPC ships it intends to procure. Evidently, the nationally implemented corvette acquisition program and participation in the EPC PESCO project are in a sense antagonistic. This is a representative example of the striking absence of any long-term coordinated planning in defence procurement. In addition to this, one should also allow for the potential effects on procurement policy and decisions exerted from the lobbying by organised rent seeking interest groups, corporate or institutional[26].

Worth mentioning is the announcement that Greece plans to join the European Sky Shield Initiative (ESSI) project[27]. Greece's air defence relies on a combination of systems. Some of them are Russian build. These are the TOR-M1 και OSA systems that provide short range air defense and the S-300 long-range surface-to-air missile system. Following the Russian invasion of Ukraine, maintenance, servicing and upgrading of these already ageing systems is no longer possible. The Russian invasion accelerated the already urgent need to replace them. To the extend that Greece's participation in the ESSI eventually materialises[28], this will the first instance that Greece will be involved in a joint major weapons procurement project, in this case of European air defence systems[29]. In fact, when it comes to the various EU backed defence collaboration initiatives, Greece emerges as one of the lead countries with a strong presence and participation in PESCO and EDF projects[30] and has recently signed a General Security Agreement Signed with OCCAR[31]. Although participation by Greek domestic companies in PESCO and EDF projects does not necessarily guarantee procurement of the end-

[26] In the past, a former Defence Minister was convicted and sentenced on corruption and bribery charges over arms procurement.

[27] The project was proposed by Germany in August 2022 and currently nineteen European countries participate. Greece's plans to join the ESSI were announced by the lead country of the project, Germany.

[28] The possible participation of Türkiye in the ESSI project could be a factor that leads Greece to decide against joining the initiative since its air defence is primarily aimed at incursions by the Turkish air force. See: Choulis *et al*. 2022 and Pitsoulis & Schwuchow, 2014.

[29] In May 2024, the Polish and Greek Prime Ministers Donald Tusk and Kyriakos Mitsotakis cosigned a letter addressed to the European Commission President Ursula von der Leyen asking her to initiate a project aiming to create an EU-funded air defense shield. https://www.bloomberg.com/news/articles/2024-05-23/greece-and-poland-ask-eu-to-create-a-common-air-defense-shield?srnd=homepage-europe

[30] For a more detailed discussion on Greece's perspective and participation in PESCO and EDF projects see Efstathiou, 2018 & 2020 and Blavoukos *et al*. 2023.

[31] In June 2023. https://www.occar.int/news/general-security-agreement-signed-with-greece

product or system, one can reasonably expect that such jointly developed defence equipment and systems will in the near future at least partially substitute direct off-the-shelf purchases.

CONCLUSION

Despite the acute fiscal constraints it faces, Greece is currently trying to feverishly pursue an extensive modernisation and upgrading of its military capabilities. The multibillion armaments program with an implementation horizon that spans well beyond 2030 is primarily driven by country specific defence needs. It was already in progress before the February 2022 Russian invasion of Ukraine. The latter did not have any noteworthy and significant effect on Greece's arms procurement plans nor its practices. From Greece's perspective, Russia represents a security challenge only within the broader geopolitical settings while Türkiye is its foremost long-term strategic adversary and country specific threat to its national interests.

Most of the major projects in terms of their monetary value that were recently implemented or currently at various stages of implementation are procurement programs that rely on G2G agreements within the FMS facility offered by the USA or with European countries such as France. The two principal drivers of arms procurement decisions are a) the need to strengthen the commitment to Greece's security by other EU or NATO members that act as security providers and b) favourable financing terms given the severe fiscal constraints Greece faces. The recent impetus towards the strengthening of a common European defence and the various instruments and mechanisms that can potentially alleviate the costs associated with arms acquisition could prove strong incentives for a fiscally constrained country such as Greece to opt for joint procurement with other EU partners. An additional strong incentive to this effect is the prospect of the participation of the domestic manufacturing base in EU arms production programs and value chains. As noted above, the steadily increasing participation and involvement of Greek defence companies in EU collaborative projects within the PESCO and EDF frameworks, is a strong indication that as such projects mature, off-the-shelf purchases that currently is the dominant practice will be partially and gradually replaced by procurement of jointly developed European systems with the concomitant domestic value added for the Greek economy.

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