Armament Industry European Research Group

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

The Italian case

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ABSTRACT

Italy traditionally balances national and international procurement programmes, and increasingly favours the latter – particularly in the air, naval and space sectors. To better understand Italian procurement practices, also with regards to different formats or bodies, five drivers are particularly important: chronic budgetary constraints; strong actorness of the single services; external factors at NATO, EU and bilateral levels; the different roles played by Ministers of Defence over time; the impact of Russia's war of aggression against Ukraine.

Keywords: Italy | defence | air force | navy | army | industry | NATO | EU | France | UK | US

INTRODUCTION

Italian Republic's approach to procurement experienced a major watershed with the end of Cold War, when the defence budget sharply declined while military operations abroad gradually but steadily increased, setting the scene for an enduring gap between the country's level of ambition and the investments in its armed forces. In the following three decades, the prevailing defence policy focus on crisis management and stability operations, counterterrorism and counterinsurgency, influenced military planning, force posture and thus procurement choices. Nevertheless, both the air forces and the navy retained key capabilities for high-intensity, peer to peer conflicts, from fifth-generation aircraft to carrier strike group and submarines. The progresses towards the enhancement of the joint level envisaged from the 1990s reforms onwards have been slow, and the *2016 White Book on International Security and Defence* has unfortunately seen very limited implementation. Overall, the Italian preferences and choices on procurement present a relatively high degree of continuity in the post-Cold War period, but since 2022 have to cope with the strategic implications of the Russian war against Ukraine.

A PROCUREMENT POLICY MAINLY DRIVEN BY FIVE ELEMENTS

Against this backdrop, five key divers influence Italy's approach to procurement, and since they are deep-rooted in the Italian landscape and/or in the international security environment they are likely to continue to do so in the next future. First, chronic budgetary constraints; second, strong actorness of the single services; third, external factors at NATO, EU and bilateral levels; forth, the different roles played by Ministers of Defence over time; finally, the impact of Russia's war of aggression against Ukraine. These drivers are somehow interrelated and concur to a complex picture for Italian policymakers.

Driver 1: Chronic budgetary constraints

In the post-Cold War period, the Italian defence budget has constantly been inadequate compared with the country's level of ambition. This contributed to a strong preference for bilateral, mini-lateral or multilateral cooperation, both in Europe and across the Atlantic Ocean, to reach economies of scale and procure joint capabilities that Italy alone could not afford. This has been the case of Tornado, Eurofighter and F-35 in the air domain, Orizzonte and FREMM warships in the naval one, as well as Italo-French satellites for example. It happened to a far lesser extent in the land domain, where helicopters, main battle tanks, armoured vehicles and other capabilities were procured mostly nationally. The Navy also had important national procurement programmes, such as those leading to the carrier strike groups Cavour, or the upcoming submarine class U212 NFS.

The chronic budgetary constraints led to the negative praxis of launching procurement programmes with an excessively long timeframe, to spread their costs over more years. This in turn complicated the management of acquisition and logistics, created the risk of obsolescence of latest tranches, and limited the related industrial production capacities.

Driver 2: Strong single services

A second driver is represented by the relative strength of each of the three services, which feature strong competences and esprit de corps – particularly the air force and navy - while the joint level remains relatively weak. Historically, the National Armament Directorate (NAD) has been added to the pre-existing defence general secretariat (Segretariato Generale della Difesa, SGD) as a secondary role[1], and still suffers from understaffing in comparison with other major European countries. This problem was already recognised by the 2016 White Book, and on May 2024 a reform law has been presented by Defence Minister Guido Crosetto to make NAD autonomous from SGD and enhance its role[2]. As a matter of fact, in recent years around 75% of operational requirements have been developed by the single services, while only 20% "born" at joint level, mostly on space and concerning maritime patrol aircraft (the remaining 5% are urgent operational requirements linked to specific needs such as special forces' ones)[3].

That means the air force and navy remain de facto important actors in shaping the respective procurement, also because they have maintained close consultation with Italian national industries like Leonardo and Fincantieri. The army faced more difficulties in dealing with procurement, because it is traditionally human-centric rather than platform-centric, it has more diverse and fragmented needs than the other services, and the national defence industrial base is less strong in the land sector than in others. The main battle tanks are a case in point, whereby the Ariete produced in the 1990s by the national industries have seen no export beyond Italy, are expensive and difficult to maintain or upgrade, and should be urgently replaced by a new platform designed by non-Italian companies. In any case, as a matter of fact, when a procurement programme is "born and raised" completely within a single service it often proceeds faster than joint programmes, with clearer requirements and smoother implementation. Moreover, the budgetary constraints indirectly discourage joint

[1] Marrone, A., & Sabatino, E. (eds) (2020). *Main Battle Tanks, Europe and the Implications for Italy*. Rome: Istituto Affari Internazionali (IAI). April. https://www.iai.it/en/pubblicazioni/main-battle-tanks-europe-and-implications-italy.

[2] Carli, A. (2024). Difesa, arriva un Direttore nazionale degli armamenti per coordinare tutti i programmi di acquisizione all'estero. *il Sole 24 Ore*. May 24. https://www.ilsole24ore.com/art/difesa-direttore-nazionale-armamenti-coordinare-tutti-programmi-acquisizione-all-estero-AGs7i8D.

[3] Interview, June 12, 2024.

programmes, as each service has to compete for its share of limited financial resources and thus prioritizes its core capabilities over joint ones.

Driver 3: The external factors

A third driver is represented by a basket of external factors including NATO, EU and bilateral partnerships. The Atlantic Alliance plays a powerful albeit indirect role, as Italy attaches great important to the NATO Defence Planning Process (NDPP), the related targets and standards. This in turn strongly influences ex ante operational needs and requirements. At the same time, over the last 8 years the EU has become a point of reference for Italian defence industrial policy. The initiatives and budgets tabled by the Union from 2016 onwards have gained attention and traction in Italy. NAD, Minister's cabined and national industries committed to EDF and its precursors[4], as well as on the negotiations on current and future initiatives. As a result, Italy pays attention to two distinct elements: NATO as key driver of operational posture with no meaningful budget; EU as important framework for defence industrial cooperation with no significant role on military planning. This is one of the reasons Italy pushes for EU-NATO coordination on procurement for the sake of coherence, effectiveness and efficiency of national capability development.

The NATO and EU levels add to a series of deep-rooted bilateral partnerships which represent an important driver for Italian procurement. The relation with Washington remains strategic because of the importance attached to US security umbrella in Europe, mainly via NATO, and the deep-rooted ties between the two countries. Giorgia Meloni's government further stressed it over the last couple of years, by taking a strong, Atlanticist position on the Russian war of aggression and future Ukrainian accession to NATO, while quitting the China-led Belt and Road Initiative to reaffirm its commitment on the Western side of the international community. When it comes to procurement, the partnership with the US materialises mostly on *F-35,* but also on strategic airlift - and there is going to be more bilateral cooperation on military space activities. However, beyond current programmes there are no major joint procurement cooperations in the making when it comes to next generation platforms. Moreover, in June 2024 the MoD cancelled the plans to buy 6 new KC-767B and is currently evaluating different offers including from Airbus[5].

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[4] Marrone, A. (2019). *National Expectations Regarding The European Defence Fund: The Italian Perspective*, ARES Group, Paris: ARES Group. October. https://www.iris-france.org/wp-content/uploads/2019/10/ARES-42-EDF-Italy.pdf.

[5] Batacchi, P. (2024): Sei nuovi tanker per l'Aeronautica, parte l'acquisizione in procedura ristretta, *Rivista Italiana Difesa*. July 23. https://www.rid.it/shownews/6713/sei-nuovi-tanker-per-l-rsquo-aeronautica-parte-l-acquisizione-in-procedura-ristretta

The partnership with the UK spans combat aircraft, helicopters, defence electronics, missile defence and other sectors, is favoured by military – particularly air force - and political convergence despite Brexit – a convergence fostered by different, subsequent governments in both London and Rome. A bilateral MoU on defence cooperation has been signed in 2023[6], and the partnership will gain further impetus with the Global Combat Air Programme (GCAP) as it entails a high degree of institutionalisation over several decades, in both military and industrial terms. Meanwhile, Italian air force purchase of further 24 Eurofighter and the export chances of the platform continue to bound the UK and Italy within this consortium.

The partnership with France is particularly strong in the space, naval and missile sectors, and has been elevated by the 2021 Quirinale Treaty[7]. Unfortunately, the relations between Rome and Paris are strained by several factors, such as opposite national institutional settings which lead to diverging policy-making processes, the negative influence of non-defence divisive issues like migration, and in some cases overlapping rather than complementary industrial capabilities which tend to competition rather than cooperation. Nevertheless, in the aforementioned sectors the Italo-French relations remain an inescapable factor for Italian procurement, and there is both lot room for improvement and the need for systematic, strategic dialogue.

The relations between Germany and Italy have been historically underdeveloped in comparison with others, and mostly limited on important but still niche cooperations like on submarines. Recently, the bilateral action plan adopted by the two governments in 2023[8] and the Leonardo-Hensoldt industrial deal have represented steps forward. The cooperation undertaken between Leonardo and KNDS to supply main battle tanks to the Italian army collapsed in 2024, and a new cooperative initiative has been launched in this regard by the Italian company and Rheinmetall, with a view to establish a joint venture by the end of this year[9].

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[6] Prime Minister's Office, 10 Downing Street, & The Rt Hon Rishi Sunak (2023). Memorandum of understanding between the UK and Italy. London. April 27. https://www.gov.uk/government/publications/memorandum-of-understanding-between-the-uk-and-italy.

[7] Governo della Repubblica Italiana (2021). Trattato tra la Repubblica Italiana e La Repubblica Francese per una Cooperazione Bilaterale Rafforzata. Rome. November 26. https://www.governo.it/sites/governo.it/files/Trattato_del_Quirinale.pdf.

[8] Agenzia Nova (2023). This is what the Action Plan between Italy and Germany provides. *Nova.news*, November 23. https://www.agenzianova.com/en/news/this-is-what-the-action-plan-between-Italy-and-Germany-provides/.

[9] Batacchi, P. (2024): Leonardo-Rheinmetall, a settembre la Joint Venture, *Rivista Italiana Difesa*. July 18 https://www.rid.it/shownews/6699/leonardo-rheinmetall-a-settembre-la-joint-venture

Driver 4: The role of Defence Ministers

Against this backdrop, the various ministers of Defence and their cabinet may play an important role, depending on the political leadership in place, the importance attached to the industrial dossier and the personalities of the politician and staff. For instance, in 2016 Minister Roberta Pinotti and her team drove the elaboration of a White Paper with important guidelines for procurement, while in 2021 Minister Lorenzo Guerini adopted the first-ever ministerial directive on defence industrial policy[10]. In contrast, other ministers did play a very marginal role, for example in 2018-2019.

Minister Crosetto has attached great priority to procurement and defence industrial policy. He has directly worked on relevant international cooperation, from GCAP to bilateral initiatives with France and Germany, to deals with a number of countries in the enlarged Mediterranean[11]. His cabinet has increased its role as the fusion point at the crossroad of Chief of Defence Staff inputs, NAD support, international relations and EU negotiations. The strength and cohesion of Meloni's government and the positive attitude of the ruling coalition towards national security and defence industry significantly helped in this regard, together with Crosetto personal, long-standing background in this sector. Accordingly, he is pushing the aforementioned reform to streamline and enhance MoD approach to procurement.

Driver 5: The strategic implications of Russia's war of aggression against Ukraine

Last but not least, the Russia-Ukraine war presents several strategic implications for Italian defence, including on procurement[12]. After February 2022, Italy has not experienced a German-style "Zeitenwende", and the defence budget has only slightly increased up to 1.49% GDP in 2024 according to NATO figures[13]. Yet a number of procurement programmes on combat capabilities for high-intensity, large scale conflicts have been launched, from armoured vehicles and main battle tanks to artillery and long-range fires, on top of ongoing major endeavours such as *GCAP* or *U212 NFS*. This means that the negative effects of chronic budgetary constraints will continue and probably worsen. While the sense of urgency rose since February 2022, it has led to no meaningful off the shelf acquisitions except for *HIMARS* from the US. In most other cases, Italy has continued to balance operational needs and

[10] Ministero della Difesa (2021), Direttiva per la Politica Industriale della Difesa, Rome. https://www.difesa.it/assets/allegati/33711/direttiva_ministro_guerini2907.pdf
[11] Nelli Feroci, F., & Goretti L. (eds) (2024). *Il governo Meloni alla prova. Rapporto sulla politica estera italiana. Edizione 2023*. Rome: Istituto Affari Internazionali (IAI). January. https://www.iai.it/it/pubblicazioni/il-governo-meloni-alla-prova.
[12] Marrone, A. (eds) (2024). *Russia-Ukraine War's Strategic Implications*. Rome: Istituto Affari Internazionali (IAI). February. https://www.iai.it/en/pubblicazioni/russia-ukraine-wars-strategic-implications.
[13] NATO (2024). Defence Expenditure of NATO Countries (2014-2024). Brussels. June 17. https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

requirements with defence industrial priorities, as epitomised by the requests of customisation of *Leopard* main battle tanks.

More importantly, the war in Ukraine has caused (i) a spike of defence budgets in most NATO countries and (ii) an acceleration and multiplication of initiatives and negotiations on cooperative procurement in Europe. This in turn has an impact on Italia actors, which have to timely work on new EU tools and/or regulations, on initiatives driven by France, Germany or the UK, and on the surge of market demands in Poland and elsewhere. The strategic implications of the war, coupled with technological innovation, make this phase a crucial one for the positioning of Italian armed forces and industries on a number of key dossiers: decisions to be taken today and in the next years will likely influence procurement, capability development and national DTIB for decades.

ITALY'S ATTITUDE TOWARDS JOINT PROCUREMENT

Broadly speaking, Italy is in favour of entrusting international agencies to manage complex, large, long-term joint procurements, and choses on a case-by-case basis among the available options which fits better the programme at stake. Often Rome prefers OCCAR to manage bilateral initiatives such as Orizzonte and FREMM, mini-lateral programmes like EUROMALE, and EDF-funded projects such as Multi Modular Patrol Corvette or HYDIS[14]. Italian MoD has also decided to use OCCAR for the procurement of the Navy's Pattugliatori Polivalenti d'Altura[15] and Logistic Support Ship[16] to showcase the programmes to possible partners and avoid the hurdles and delays of national legal framework for procurement.

In other cases, Rome agreed to establish *ad hoc* bodies within NATO, such as the NATO Eurofighter and Tornado Management Agency (NETMA) and the NATO Helicopters Management Agency (NAHEMA). The NATO Support and Procurement Agency (NSPA) has also been used by for minor Italian procurement, such as field hospitals. Notably, an international organisation is being created by Italy, Japan and the UK to manage GCAP[17], also due to the extraordinary importance and scope of this programme for the Italian MoD and national industry.

In general, OCCAR is appreciated by stakeholders as it is deemed effective, efficient and tested, and does not entail the non-recurrent costs (and the risks) to set up a new body.

[14] OCCAR, Programmes. https://www.occar.int/our-work/programmes
[15] OCCAR, PPA – Multipurpose Patrol Ship. https://www.occar.int/our-work/programmes/ppa-multipurpose-patrol-ship
[16] OCCAR, LSS – Logistic Support Ship. https://www.occar.int/our-work/programmes/lss-logistic-support-ship
[17] Ministry of Foreign Affairs of Japan (2023). Signing of Convention on the Establishment of the "Global Combat Air Programme – GCAP International Government Organisation". Tokyo: December 14. https://www.mofa.go.jp/press/release/pressite_000001_00047.html.

Moreover, it is seen as neutral third party with respect to countries participating in the joint procurement, and there are accountability mechanisms which involve the participating countries' MoDs including the Italian one. Still, as demonstrated by GCAP, the choice of the joint procurement format depends upon the specificities of each cooperative endeavour and on the agreement among participating countries. Against this backdrop, there is no appetite for new EU bodies to manage joint procurement, nor for turning EDA into a procurement agency: OCCAR fulfils already quite well this role for many European cooperative projects, and can continue to do so provided it will hire more personnel to ensure adequate effectiveness and efficiency.

Against this backdrop, the Russian invasion of Ukraine did not represent a watershed. After more than two years of war, Italy continues to prefer OCCAR to carry on several multinational programmes, while establishing the *ad hoc* GCAP International Government Organization. Rome supports the recent EU initiatives incentives for joint European procurement while avoiding undue legal or institutional complexities. For instance, Italy committed to the establishment of EDIRPA, but its long lead time and little budget disappointed many stakeholders. There is now the hope European Defence Industrial Strategy will lead to a robust, effective and efficient procurement programme which complements EDF support for research and development.

CONCLUSION

In conclusion, Italy's procurement choices continue to balance operational requirements with defence industrial policy, with no transformative sense of urgency towards off-the-shelf acquisition because of the Russian war in Ukraine. The reform recently launched by Minister Crosetto may bring significant improvements to the MoD functioning in this regard if properly implemented. In any case, budgetary constraints are set to endure as Italy did not establish a credible timeline to reach 2% GDP threshold. The actorness of the single services will remain an important driver too in comparison with a weak joint level, even more for programmes like GCAP, Pattugliatori Polivalenti d'Altura or Logistic Support Ships, while the single ministers of Defence are able to play an important role too. External factors may change at transatlantic level under a Trump presidency, or at EU level should European defence make a quantum leap, while continuity is likely to mark relations with France, Germany and the US. Last but least, several implications of the ongoing Russia-Ukraine war have still to fully impact Italian procurement, and the conflict itself is far from set.

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