

# EUROPEAN DEFENCE ECOSYSTEM, THIRD COUNTRIES' PARTICIPATION AND THE SPECIAL CASE OF TURKEY

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## Executive Summary

- ▶ During the last three decades, the European Union acquired a vast range of exclusive and shared competences. Although these competences concentrated on economic integration, there have been significant transfers of sovereignty from national to supranational level in other policy areas. Despite these developments, further integration in the Common Security and Defence Policy has been limited. Since the initiation of the CSDP at the Franco-British Saint-Malo summit in 1998 and until the European Council of 2013, it has mostly been a taboo to discuss security and defence matters at the supranational level.
- ▶ CSDP has consolidated its rank as a high topic in the Brussels agenda in 2017 with the launch of the European Defence Fund (EDF) and the Permanent Structured Cooperation (PESCO). Both initiatives are unique for different reasons. The EDF is the first Commission-led defence initiative. As a treaty-based initiative, PESCO requires participant member states to accept binding commitments.
- ▶ The first two waves of PESCO projects (for a total of 34 projects), as well as the first EDF-funded research projects, have already been launched. The first concrete results from both initiatives are expected in 2019. This year will also represent an important period during which the governance rules should be established, most notably regarding third-country participation.
- ▶ Non-EU countries are waiting for the announcement of clear conditions in order to participate in joint projects with their European partners. This group of countries includes Turkey, Ukraine, the United States, and soon the United Kingdom. The conditions to participate in PESCO or EDF projects will need to consider technical requirements and political sensitivities.
- ▶ The participation of the United Kingdom into defence projects in the post-Brexit era is critical to ensure the success of these initiatives. The United Kingdom is the third largest European major arms exporter. Yet, conditions should be applicable to all third countries. Any special treatment offered to the UK will trigger heavy critics by other candidates.
- ▶ Although Turkey's current political relations with EU member states and institutions have deteriorated, it keeps strong economic ties with the Union. Notably, Turkey plays an important role both as a defence exporter and importer for the EU. The EU is the second largest client of Turkey (after the US) representing 25,4% of its defence and aerospace exports<sup>1</sup>. Ankara represents 3% of total EU exports of major arms and is a key client for member states such as Spain and Italy (respectively 14% and 10% of their total arms exports)<sup>2</sup>. There are also strong ties between the Turkish defence firms and their European counterparts. Turkish companies are part of European projects such as the Cougar MK1 and the Airbus A400M. Moreover, large European companies are active in the making of key Turkish defence products (i.e. Agusta Westland – ATAK T129; MBDA & Thales – Air and Missile Defence Systems; BAE Systems – TF-X).
- ▶ This paper aims to present an overview of the latest developments in the European Union's new defence ecosystem and to analyse its meaning for potential partner countries such as Turkey. The paper first presents the main components of the EDF and PESCO. It then examines the current state of affairs regarding the conditions for third-country participation to these initiatives. Finally, the analysis focus on the case of Turkey through its defence industrial relations with the EU and its potential participation to the EDF and PESCO.

<sup>1</sup> Savunma ve Havacılık Sanayii, Performans Raporu, 2017. Accessed on: February 25, 2019.

<sup>2</sup> SIPRI Fact Sheet, March 2018, Trends in International Arms Transfers, 2017. Accessed on: February 25, 2019.

## Introduction

Divergent defence industry policies of the EU member states are a handicap for the Union's place in global competition. Despite representing 27% of global arms export for the 2013-2017 period<sup>3</sup>, the misuse of resources due to the duplication of projects limits a greater potential for the Union and its members on the global market<sup>4</sup>. The Permanent Structured Cooperation (PESCO), the European Defence Fund (EDF) and the Coordinated Annual Review on Defence (CARD) aim to enable the EU to achieve strategic autonomy<sup>5</sup>.

PESCO and the EDF offer concrete opportunities for greater defence cooperation. Despite being labelled a "European Army" initiative, PESCO is first and foremost a defence cooperation framework. Most of the projects are about the co-development of a specific defence product such as the Tiger Mark III Attack Helicopter or a Counter-Unmanned Aerial System<sup>6</sup>. So far, the EDF which consist of two windows (a research and a capability one), finances research projects. The Commission opened a call for proposals to finance capability development projects in March 2019. The call focuses on a Eurodrone project, artificial intelligence and cyber defence.

The rules for third-country participation is key to the success

of PESCO and the EDF as the United Kingdom, one of the top three arms exporters in the EU, is set to leave the Union. Furthermore, the exclusion of the United States will have negative effects on the initiatives. The US is playing a key role not only in the security but also defence industry of its NATO Allies. Certainly, Brussels cannot offer a custom-made entry ticket to the UK or the US. Such a decision would ultimately alienate other partner countries.

Ankara plays an increasingly assertive role in the global arms trade. In the 2008-2013 period Turkey represented 0.4% of the global arms exports. It increased its share of the total global arms exports to 0.8% (+145%) for the 2013-2017 period and became the 9<sup>th</sup> largest European major weapons exporter<sup>7</sup>. While increasing its export numbers, Turkey continues to be a significant importer of European defence products. Ankara is a key importer for Spain and Italy (respectively 14% and 10% of their total exports)<sup>8</sup>. However, Turkey also has political differences with member states and longstanding tensions over Cyprus. This contrasting picture of Turkey's relations with EU member states must be kept in mind when analysing its participation to European defence projects.

<sup>3</sup> Ibid.

<sup>4</sup> European Commission, The case for greater EU cooperation on security and defence. [https://ec.europa.eu/commission/sites/beta-political/files/defending-europe-factsheet\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/defending-europe-factsheet_en.pdf). Accessed on: February 25, 2019.

<sup>5</sup> Strategic Autonomy: the ability to pursue its own interests without being constrained by other states. Sven Biscop, July 2018, Letting Europe Go Its Own Way: The Case for Strategic Autonomy, Foreign Affairs, <https://www.foreignaffairs.com/articles/2018-07-06/letting-europe-go-its-own-way>. Accessed on: February 25, 2019.

<sup>6</sup> For more PESCO projects: <https://www.consilium.europa.eu/media/37028/table-pesco-projects.pdf>

<sup>7</sup> SIPRI Fact Sheet, March 2018, Trends in International Arms Transfers, 2017. Accessed on: February 25, 2019.

<sup>8</sup> Ibid.

## EDF and PESCO: Exceptions to The Rule?

Since the initiation of the CSDP at the Franco-British Saint-Malo summit in 1998 and until the European Council of 2013, it has mostly been a taboo to discuss security and defence matters at the supranational level. When the topic came on the table, it mostly resulted in empty promises and unrealistic goals.

CSDP has consolidated its rank as a high topic in the Brussels agenda in 2017 with the launch of the European Defence Fund (EDF) and the Permanent Structured Cooperation (PESCO). Both initiatives are unique for different reasons. The EDF is the first Commission-led defence initiative. As a treaty-based initiative, PESCO requires participant member states to accept binding commitments.



Figure 1: The European Defence Ecosystem<sup>9</sup>

Among all the recent initiatives, the European Defence Fund stands out as the only institution-driven one, at the contrary of the usual member states-driven initiatives in the field of defence and security. Its launch coincided with the PESCO ‘Sleeping Beauty’ speech of President Juncker<sup>10</sup>. The primary aim of the EDF is to encourage member states to cooperate more deeply in their defence industrial planning and production. The Commission showcased the need for such an initiative with the following terms: “too little coordination in defence planning leads to an inefficient use of taxpayers’ money, unnecessary duplication and suboptimal deployability of defence forces”<sup>11</sup>.

The European Defence Fund has two separate but complementary windows. An initial research window, the Preparatory Action on Defence Research (PADR), which

covers 100% of costs of research projects in defence technologies in member states and associated third-countries. The research window is completed by a capability one, the European Defence Industrial Development Programme (EDIDP), which covers 20% of costs generated by the joint development or acquisition of defence products. The initial budgets, until 2020, are 90 million euros for the research window and 500 million euros for the capability one<sup>12</sup>. So far only research projects have been funded by the EDF. However, the Commission recently opened a call for proposals for financing capability projects via the EDIDP under the 2019-2020 EU budget. Although the initial 590 million euros EDF budget is a modest sum, the potential impact of the envisaged 13 billion euros under the 2021-2027 budget period cannot be underestimated.

<sup>9</sup> European Defence Agency, <https://www.eda.europa.eu/images/default-source/projects-nre/capture.jpg>, Accessed on: February 25, 2019.

<sup>10</sup> European Commission, June 2017, Speech by President Jean-Claude Juncker at the Defence and Security Conference Prague: In defence of Europe, [http://europa.eu/rapid/press-release\\_SPEECH-17-1581\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-17-1581_en.htm) Accessed on: February 25, 2019.

<sup>11</sup> European Commission, June 2017, Communication from The Commission to The European Parliament, The Council, The European Economic and Social Committee And The Committee of The Regions Launching The European Defence Fund, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0295&from=EN> Accessed on: February 25, 2019.

<sup>12</sup> Ibid.

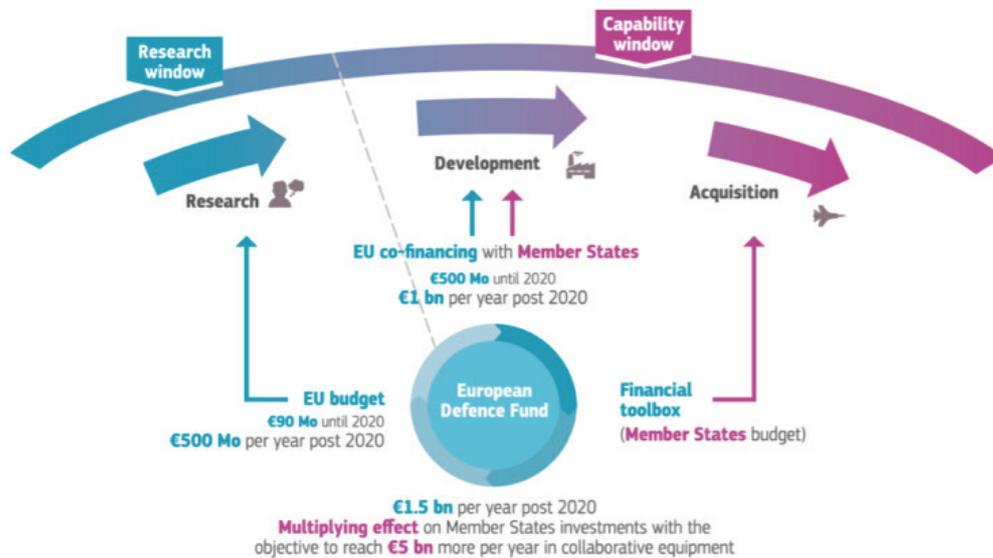


Figure 2: The Windows of the European Defence Fund, European Commission.<sup>13</sup>

The European Defence Fund and PESCO complete each other. The European Commission wants these initiatives to combine projects. It offers an extra 10% financing on the top of the 20% proposed for capability projects if the project is also a PESCO one<sup>14</sup>.

PESCO introduced an unprecedented potential for cooperation in security and defence at the EU level. The particularity of PESCO is in its name; it is a permanent and structured cooperation. Thus, PESCO offers a framework to improve cooperation among participating member states. The initial participation to PESCO is voluntary. However, once part of it, member states have binding commitments to fulfil.

PESCO has an operational and a capability development dimension. Regarding the operational dimension, the Treaty on European Union (Article 42.7) states that PESCO participating states are the ones willing and able to fulfil “the most demanding missions”<sup>15</sup>. Although there is not a clear definition of what the Treaty means by most demanding missions, this term shows the high level of ambition entrusted

into PESCO. Protocol 10 also clearly states the obligations of participating member states to contribute into multinational forces, supply battle groups and “enhance the availability, interoperability, flexibility, and deployability of their forces”<sup>16</sup>. As stated above, PESCO is not about a European Army, but rather effective defence cooperation. Seventeen PESCO commitments over a total of twenty are about capability development. Regarding this aspect, PESCO requires participating member states to:

- (a) cooperate, as from the entry into force of the Treaty of Lisbon, with a view to achieving approved objectives concerning *the level of investment expenditure on defence equipment*, [...]
- (b) *bring their defence apparatus into line with each other* as far as possible, particularly by harmonising the identification of their military needs, by pooling and, where appropriate, specialising their defence means and capabilities, and by encouraging cooperation in the fields of training and logistics;
- (c) work together to ensure that they take the necessary measures *to make good [...] the shortfalls perceived*

<sup>13</sup> European Commission, June 2017, Communication from The Commission to The European Parliament, The Council, The European Economic and Social Committee And The Committee of The Regions Launching The European Defence Fund, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0295&from=EN> Accessed on: February 25, 2019.

<sup>14</sup> European Commission, June 2018, EU Budget for the Future: The European Defence Fund, [https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-eu-defence-fund\\_en\\_0.pdf](https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-eu-defence-fund_en_0.pdf) Accessed on: February 25, 2019.

<sup>15</sup> Consolidated Version of The Treaty On European Union, [https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC_1&format=PDF)

<sup>16</sup> Consolidated version of the Treaty on European Union, Protocol (No 10) on permanent structured cooperation established by Article 42 of the Treaty on European Union, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12008M%2FPRO%2F10>

in the framework of the 'Capability Development Mechanism'; [...]

- (d) take part, where appropriate, in the development of major joint or European equipment programmes in the framework of the European Defence Agency<sup>17</sup>.

PESCO has a two-level governance structure. The first is the

governance level where the Council takes the decisions by unanimity voting under its PESCO format (only participating member states are allowed to vote). The second is the specific project's level. There, each project has its own governance structure decided and organized by its participating member states<sup>18</sup>.

## Third-Country Participation: A Contrast Between Technical Needs and Political Realities

Before starting the deeper analysis of the rules for third-country participation, the definition of the participating actor should be made for each of the initiatives. Participation in a PESCO project is made at the state level. Although the action will probably be undertaken by a sub-entity, the participant is the country. Thus, the invitation to participate to the project goes to the responsible branch of the government. The participating actor of an EDF project is the company or agency completing the action. Therefore, the entity alone enters the call for proposals. This actor can be a private or public defence firm, a public entity, an academic institution or even a think tank.

As noted in the introduction, the rules of governance for both initiatives are under making and thus subject to change. Yet, based on documents from the European institutions and other sources active in the Brussels "bubble", we can draw the main lines of the keys to access to both initiatives for non-EU countries.

The EDF is the most established one regarding the rules which will be applied to third-country participation. Based on the first readings of the Commission proposal from both the Parliament<sup>19</sup> and the Council<sup>20</sup>, the direction of the final provisions can be deducted<sup>21</sup>. This is especially true

regarding the derogations for third-country participation. The text makes a clear distinction between associated and non-associated third-countries. An associated third-country is a European Free Trade Association (EFTA) member which is also a member of the European Economic Area (EEA) (Iceland, Liechtenstein and Norway). Any other third-country is a non-associated one.

There are two scenarios in which a non-associated third-country entity can become an eligible applicant. It can either (1) apply through its subcontractor established in the Union or in an associated third-country, or it can (2) offer its resources and services established in a non-associated third-country through cooperation with the beneficiaries of an action. For both options, legislators have established strict conditions to protect the interests of the EU and its member states.

In the first case scenario, if deemed necessary for achieving the objectives of an action, an applicant which is established in the EU and is controlled by a non-associated third-country entity can be eligible. In order to become a beneficiary, the entity in question must fulfil three conditions:

1. **There must be no restrictions** (on infrastructure,

<sup>17</sup> Consolidated Version of The Treaty On European Union, [https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC_1&format=PDF)

<sup>18</sup> Council of the European Union, November 2017, Notification on Permanent Structured Cooperation (PESCO) to the Council and to the High Representative of the Union for Foreign Affairs and Security Policy. <https://www.consilium.europa.eu/media/31511/171113-pesco-notification.pdf> Accessed on: February 25, 2019.

<sup>19</sup> European Parliament, November 2018, Report on the proposal for a regulation of the European Parliament and of the Council establishing the European Defence Fund, [http://www.europarl.europa.eu/doceo/document/A-8-2018-0412\\_EN.html?redirect](http://www.europarl.europa.eu/doceo/document/A-8-2018-0412_EN.html?redirect) Accessed on: February 25, 2019.

<sup>20</sup> Council of the European Union, November 2018, Proposal for a Regulation of The European Parliament and of The Council establishing the European Defence Fund (First reading) - Partial general approach.

<sup>21</sup> On February 20, 2019, the Commission has stated that the Parliament and the Council have reached a provisional agreement. For more details: [http://europa.eu/rapid/press-release\\_IP-19-1269\\_en.htm](http://europa.eu/rapid/press-release_IP-19-1269_en.htm) Accessed on: February 25, 2019.

assets, know-how, etc.) exercised from the non-associated third-country or its entity on the beneficiary.

2. **There must be no access to sensitive information** by the non-associated third-country or its entity; employees of the beneficiary must have national security clearance given by the host member state.
3. **There must be no transfer of intellectual property** during and after the action (with a time limit to be yet established) from the beneficiary to any entity outside the Union or associated third-countries without the approval of the Member State in which the beneficiary is established<sup>22-23</sup>.

This scenario is offering a great opportunity for third-country entities which are already established within the EU. Through their EU-based subsidiaries, these entities can be part of European-wide projects and benefit from the Fund. However, the transfer of technology, which is a critical point when it comes to common defence projects is restricted. The regulation shows that EU institutions agree to limit as much as possible the sharing of sensitive information with any actor outside of the Union during the action. Depending on the final version of the text, restrictions on technology transfer could continue beyond the end of the action.

In the second case scenario, if there is no competitive substitute available in the EU or an associated third-country, beneficiaries of the action may enter into a cooperation with an entity established in a non-associated third-country. Under this cooperation, the infrastructure, resources, facilities and/or assets of this entity may be put at use for the purpose of the action. In this scenario too, there are critical limitations regarding the access to sensitive information and the transfer of technology. While the Council document focuses on restricting access to sensitive information by unauthorised entities, the Parliament version of the document calls for the application of the same three conditions as the first scenario.

Perhaps the most important detail regarding the second scenario is that any costs generated outside of the Union or an associated third-country is not eligible for funding. Thus, although being able to participate in a common defence project under the EDF, an entity established in a non-associated third-country cannot receive direct funding. This scenario can benefit entities which are looking to enter a European defence project to share and receive precious know-how and to obtain a certain level of technology transfer in exchange of investments.

While a third-country entity can be part of a consortium responding to a call for proposals for the EDF (proactive), its participation to a PESCO project requires an invitation from project members (reactive). Here, project members refer to PESCO participating members states which are part of a specific project. As a member-states driven initiative, any major decision requires the approval of all participating member states. In this regard, the general rules for third-country participation, which requires a separate Council decision, have not been clarified yet.

The 2017 Council decision establishing PESCO offers an overview of the process. It starts with an invitation from projects members to a third-country which can offer substantial added-value without creating dependency. Then, the Council in its PESCO format and through a unanimity vote decides whether the third-country adheres to the general rules of participation. If the Council makes a positive decision, then the projects members and the third-country sign an administrative arrangement entailing the details of the cooperation<sup>24</sup>.

A working paper<sup>25</sup> on the rules for the exceptional participation of third-countries is under discussion. The working paper proposes to adapt the general rules for participation on a project-by-project basis. Thus, a third-country would require a Council approval for each project it plans to participate.

<sup>22</sup> European Parliament, November 2018, Report on the proposal for a regulation of the European Parliament and of the Council establishing the European Defence Fund, [http://www.europarl.europa.eu/doceo/document/A-8-2018-0412\\_EN.html?redirect](http://www.europarl.europa.eu/doceo/document/A-8-2018-0412_EN.html?redirect) Accessed on: February 25, 2019.

<sup>23</sup> Council of the European Union, November 2018, Proposal for a Regulation of The European Parliament and of The Council establishing the European Defence Fund (First reading) - Partial general approach. <http://data.consilium.europa.eu/doc/document/ST-14094-2018-REV-1/en/pdf> Accessed on: February 25, 2019.

<sup>24</sup> Council of the European Union, December 2017, Council Decision establishing Permanent Structured Cooperation (PESCO) and determining the list of participating Member States, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017D2315&from=EN> Accessed on: February 25, 2019.

<sup>25</sup> Jacopo Barigazzi, October 2018, Politico, UK and US will be allowed to join some EU military projects, <https://www.politico.eu/article/pesco-military-uk-and-us-will-be-allowed-to-join-some-eu-military-projects/> Accessed on: February 25, 2019.

Moreover, the article mentions the desire of member states to have adherence to EU values as one of the general rules. This criterion has been specifically introduced to potentially obstruct the participation of Turkey, a key NATO ally, to PESCO given that Greece and Austria oppose Ankara's participation in common EU projects<sup>26</sup>.

When comparing the rules for third-country participation to the EDF and PESCO, the criteria to participate in the former come forward as more technical. Participation in the

Fund is first and foremost done at the entity level, which mostly consists of defence companies. While the political conjuncture has always a significant weight on defence deals, its impact might be contained under the leadership of the Commission. The picture is different when it comes to participation in PESCO. By requiring a Council decision for every third-country participation to a PESCO project, the process will be highly political. Moreover, this decision will have to be taken through a unanimity vote, which further complicates the participation of countries such as Turkey.

## The Place of Turkey in the European Defence Ecosystem

Ankara plays an increasingly more assertive role in global arms sales. Between the periods of 2008-2013 and 2013-2017, it increased its percentage of the total global arms exports from 0.4% to 0.8% (+145%) and became the 9th largest European major weapons exporter<sup>27</sup>. Turkey plays an important role both as a defence exporter and importer for several member states. The EU is the second largest client of Turkey (after the US) representing 25,4% of its defence and aerospace exports<sup>28</sup>. Ankara represents 3% of total EU exports of major arms and is a key client for several member states such as Spain and Italy (respectively 14% and 10% of their total arms exports)<sup>29</sup>.

Turkish and European defence companies are also intensifying their cooperation. There are three common types of interaction. The first one is through the participation of Turkish firms into European defence projects, without necessarily being under the EU umbrella. Here, Turkish companies have been active in EU projects such as HYPERION (ASELSAN) and TALOS (ASELSAN, STM). There are also established collaboration between Turkish firms

and their European counterparts. One of such collaborations exists between the Turkish Aerospace Industries Corporation (TAI) and Airbus. TAI produces several parts of Airbus products such as the Eurocopter Cougar MK1 and the military transport aircraft Airbus A400M<sup>30</sup>.

Secondly, European companies are active in the making of key Turkish defence products. Most notably, since 2009 the Italian giant Leonardo through its subsidiary Agusta Westland is a partner of TAI in the production of the T129 ATAK Multirole Combat helicopter. In another significant partnership, TAI and BAE Systems collaborate in the production of the Turkish fighter aircraft, the TF-X<sup>31</sup>. BAE Systems is providing technological support to the Turkish manufacturer. The most recent example of European companies' presence in the production of a Turkish defence product is the indigenous Air and Missile Defence System project. ASELSAN and ROKETSAN will benefit from the experiences of EUROSAM, a joint venture of MBDA and THALES<sup>32</sup>.

<sup>26</sup> Ibid.

<sup>27</sup> SIPRI Fact Sheet, March 2018, Trends in International Arms Transfers, 2017. Accessed on: February 25, 2019.

<sup>28</sup> Savunma ve Havacılık Sanayii, Performans Raporu, 2017. Accessed on: February 25, 2019.

<sup>29</sup> SIPRI Fact Sheet, March 2018, Trends in International Arms Transfers, 2017. Accessed on: February 25, 2019.

<sup>30</sup> For more information in TAI programs: <https://www.tai.com.tr/urunler/komponent-uretimi> Accessed on: February 25, 2019.

<sup>31</sup> BAE Systems, BAE Systems signs Heads of Agreement for a future contract with Turkish Aerospace Industries for TF-X Programme, <https://www.baesystems.com/en/article/bae-systems-signs-heads-of-agreement-for-a-future-contract-with-turkish-aerospace-industries-for-tf-x-programme> Accessed on: February 25, 2019.

<sup>32</sup> MBDA, Turkey contracts EUROSAM, ASELSAN and ROKETSAN to define its future indigenous air and missile defense system, <https://www.mbd-systems.com/2018/01/05/turkey-contracts-eurosam-aselsan-and-roketsan-to-define-its-future-indigeneous-air-and-missile-defense-system/> Accessed on: February 25, 2019.

Companies	Projects
ASELSAN, STM	TALOS (EU Project)
ASELSAN	HYPERION (EU Project)
Turkish Aerospace Industries (TAI)	Cougar MK I (Airbus)
Turkish Aerospace Industries (TAI)	A400M (Airbus)
AgustaWestland (Leonardo)	T129 Atak (TAI)
BAE Systems	TF-X (TAI)
EUROSAM (MBDA, THALES)	Air and Missile Defence Systems (ASELSAN, ROKETSAN)
Yaltes (THALES)	Milgem (ASELSAN)

Table 1: Examples of Turco-European Defence Cooperation.

The third type of interaction is European companies' subsidiaries in Turkey. Here, an example is the establishment of RBSS in 2016 by the Turkish BMC (51%), the German Rheinmetall AG (39%) and the Malaysian Etika Strategi (10%)<sup>33</sup>. Several other European companies have long owned subsidiaries in Turkey (i.e. THALES – Yaltes, Leonardo – Selex ES).

In the last two decades, the Turkish defence industry gained both in volume and quality of its products. It has also established a culture of collaboration with European partners. These developments designate Turkey as a strong candidate as an active third-country participant in EU defence initiatives. However, Turkey has also political differences with member states and longstanding tensions over Cyprus. This contrasting picture of Turkey's relations with EU member states must be kept in mind when analysing its participation to European defence projects.

Although Turkey's participation in PESCO is a complex political issue for abovementioned reasons, Turkish companies may have higher chances in EDF projects. As previously mentioned, third-country participation in PESCO will be highly politicized due to the use of unanimity vote for every candidate. Countries such as Cyprus, Greece or Austria can potentially use their veto. For instance, in the past, Cyprus has vetoed Turkey's application to the European Defence Agency.

The prospects for the participation of Turkish defence companies to EDF projects are more promising. First, Turkish companies have a history of participation to Commission-led defence programs (i.e. HYPERION, TALOS). Furthermore, within the TALOS project, ASELSAN and STM have even

cooperated with the Greek Hellenic Aerospace Industry<sup>34</sup>. This is a precedent for cooperation with potentially rival countries under a Commission-led project. Secondly, the selection process will be based on technical requirements which can be met by competent Turkish companies. The applications will be assessed by the responsible Commission bodies. Although the political situation between Turkey and EU member states can still play a role, this process may put more emphasis on technical criteria.

For both initiatives, the potential CAATSA sanctions looming over the Turkish defence industries must be carefully examined. So far, European foreign and security policy circles have mainly focused on CAATSA's aspects covering punitive actions towards the Russian energy and aluminium sectors. There is no indication regarding the position the EU is going to take towards a country under CAATSA sanctions. Additionally, the measures against the Turkish defence industries can affect European firms cooperating with them. Thus, leave aside new partnerships, this situation could jeopardize Turkey's ongoing collaboration with BAE Systems in the production of the TF-X and its cooperation with MBDA and Thales for the indigenous Air and Missile Defence System project. These companies are deeply integrated into the lucrative US defence market. They would likely avoid clashing with American interests.

Finally, Almaz-Antey (the main producer of the S-400 air and missile defence system) is also under Brussels' sanctions regime against Moscow. Although European sanctions towards Almaz-Antey only cover asset freeze and travel ban, Turkey's procurement from the Russian giant could impact its prospects for access to European initiatives.

<sup>33</sup> İbrahim Sünnetçi, Defence Turkey, A Look at the Turkish Defense Industry Land Platforms/Systems Sector, <http://www.defenceturkey.com/en/content/a-look-at-the-turkish-defense-industry-land-platforms-systems-sector-3027#.XHP72egzbb0> Accessed on: February 25, 2019.

<sup>34</sup> For the list of participants: [http://www.ttinorte.es/en/?page\\_id=340](http://www.ttinorte.es/en/?page_id=340) Accessed on: February 25, 2019.

## Key Findings

Since 2017, the European Union launched defence initiatives at an unprecedented pace and potential. Although the final outcomes will once more depend on the member states' willingness to commit to further integration, the realistic objectives of the new frameworks are promising. The EDF and PESCO have created a momentum for cooperation among member states' defence policies. The first PESCO and EDF projects are expected to demonstrate their initial results this year. 2019 is also the year the governance rules for both initiatives will take their final shape.

The success of PESCO and the EDF will also depend on the preservation or creation of cooperation with partner countries. Third-countries such as the US and soon the United Kingdom are deeply integrated with several member states' defence industries. Their participation in the initiatives is crucial. However, to fulfil the goal to create a more autonomous defence industry, the EU can also not offer *carte blanche* to these countries. A balance must be built between receiving added value and not creating new dependencies.

The rules for third-country participation are likely to be built with the participation of these two countries in mind. Yet, they should be universally applicable. If there is favouritism for any specific country, this would highly delegitimize the Union in its relations with other third-countries. The conditions

to participate in an EDF or a PESCO project are different in nature. While under the lead of the Commission, the EDF process is more technical, participation to a PESCO project goes through a Council decision and thus is highly political. Turkey, through its ascending defence industry and deep defence industrial relations with several EU member states, is another key candidate to both PESCO and the EDF. Yet, Ankara's participation to the former is jeopardized by the unanimity vote at the Council. The fractured relations of Turkey and several member states increases the likelihood of a veto at the Council. When it comes to the participation of Turkish defence companies to the Defence Fund, the picture is slightly different. Under the leadership of the Commission, the impact of the political tensions could be minimized. Then, competent Turkish companies will have to get through strict technical requirements.

The picture which surfaces from this paper is a mitigated one. European Union's new initiatives are creating potentially fertile frameworks for the member states' defence industries to reach their level of ambition. Yet, past experiences have demonstrated that especially in the field of security and defence, agreements are easier to make than to put into practice. The rules for third-country participation is key to the success of the initiatives. While the Union and its member states are looking for added value from partners countries, they are also avoiding to create new dependencies.



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# **EUROPEAN DEFENCE ECOSYSTEM, THIRD COUNTRIES' PARTICIPATION AND THE SPECIAL CASE OF TURKEY**

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