

The Greek Defence Industry: Constraints, Opportunities, Directions

Antonis Kamaras

Research Associate - ELIAMEP

Introduction

What I will seek to do in my presentation is to, first, identify what I consider as the principal constraints and opportunities regarding the present state of the Greek defence industry. Second, speculate on the future direction of the Greek Defence Industry based on the set of constraints and opportunities I have identified.

My analysis will have as its background the fast evolving Common Security and Defence Policy and what I believe constitute distinctive Greek characteristics which are highly relevant from a CSDP perspective.

Constraints

On the constraints side, of the Greek defence industry, I would identify the following factors:

- Constraint No 1: Due to the severity of the Turkish revisionism and about two years prior to the break out of the Russo-Ukrainian war, Greece initiated a major weapons procurement programme, on such items as fighter aircraft, frigates and corvettes, restricting the fiscal space for expenditure on procurement, across the cycle, which is to say R&D, manufacturing, acquisition, by Greek defence industry firms participating in European defence industrial partnerships.
- Constraint No 2: Most starkly, in the previous major weapons acquisition programme, in the late 1990's and early 2000's, there was effectively zero spending on defence R&D, with funding being allocated to imports of weapons systems and local companies engaged, under offset agreements, in sub-contracting activities: either of component parts or of assembly manufacturing. This factor has meant that the Greek Ministry of National Defence (a) has limited to no experience in undertaking

R&D with either Greek defence industry firms or the Greek research community and consequently (b) the Ministry of National Defence and the Armed Forces have not institutionalised the process of co-creating innovation with the defence industry and the research community, via feedback loops from the field to the research laboratory or industrial plant and vice versa.

- Constraint No3: Underlying these procurement patterns is the fact that, historically, the civilian leadership of the Armed Forces has not assumed a sophisticated, technocratic as much as concrete, political responsibility for the high performance of the Greek Armed Forces. Military effectiveness and modernisation have been reduced to the Greek Armed Forces being equipped with the same or comparable advanced weapon systems to that of Turkey. This narrow interpretation of military effectiveness has meant that the civilian leadership has not been driven to utilize Greece's defence industry and research community: so that they could make a meaningful contribution to the Greek Armed Forces capacity to acquire a qualitative edge over Greece's principal national security threat, Turkey - the Armed Forces of which enjoy a quantitative advantage both in personnel and weapon systems.

Opportunities

On the opportunities ledger I would note the following factors:

- Opportunity No 1: Greece's long relationships with top contractors from abroad – I note here the subcontracting arrangements, on the basis of offset agreements, accompanying the acquisition of Mirage 2000 fighter jets build by Dassault, the acquisition of German 214 submarines build by HDW, and the acquisition of Leopard main battle tanks build by Rheinmetall and Krauss Maffei – means that these relationships can migrate to CSDP-induced consortia, involving the Greek defence sector in the whole cycle and not just in subcontracting, as surely these leading

European prime contractors will also be leading players in the reshaped defence sector field in Europe.

- Opportunity No 2: Relatedly, and because Greece alone among all other NATO member countries does not feel that it is covered by NATO's article 5, as its principal national security threat emanates from a fellow NATO member-state, Turkey, this means that the country's policy makers are bound to get on board CSDP. A CSDP that combines credible collective defence with a commonly shared defence industrial base. To render this point clear I would characterize Greece as the antithesis of Poland for which the Russian Federation is the existential national security threat, Russia being in all its incarnations the *raison d'être* of NATO and Article 5. And for which Poland the US is the only credible provider of collective security. Thus Poland's major procurement and industrial relationships, in contrast to those of Greece, are with the US and countries which tend to reliably align with US geopolitical priorities, namely the UK and South Korea.
- Opportunity No3: Greece's fiscal crisis has also meant that all of the state-owned defence contractors are or will be acquiring external shareholders, bringing in fresh capital, advanced expertise and management stability. Private sector firms in the long crisis years have become more internationally-oriented. Thus the Greek defence industry altogether features a corps of corporate entities that are capable of sustaining CSDP-induced industrial partnerships.
- Opportunity No 4: Greece's post-fiscal crisis economic policy template mandates the reorientation of the Greek economy from domestic consumption to exports of high value added goods and services. Such a transition has made Greece's defence industry a key sector, in various prominent government and non-government policy documents, in the Greek economy's ongoing export-oriented transition.
- Opportunity No 5: The lack of solely national funding for research, in defence as much as in all other industrial and service sectors, has compelled Greek defence industry firms and public research

organisations to seek funding from EU sources, thus acculturating them to cross-border partnerships and making them familiar with the pan-European defence R&D landscape. It is worth noting in this regard that Greece with, at a recent count 30 EDF and 12 PESCO participations, is fifth in rank, after France, Italy, Spain and Germany, under this benchmark of European-oriented defence R&D.

- Opportunity No6: Greece's high tech start-up scene is burgeoning with the help of European Investment Bank financing and by exploiting networking opportunities with Greece's diaspora of high tech entrepreneurs, managers and financiers. Greek defence needs, even more so if actualized through CSDP, as it applies to both reconfiguring existing weapon systems and harnessing disruptive technologies, par excellence can make use of this dynamically growing, high tech start-up ecosystem.

Future Directions

Considering the set of constraints and opportunities I just identified, I will now speculate on some of the main future directions that the Greek Defence Industry will pursue.

1. The qualitative difference, from the perspective of the Greek defence industry, is that to the extent that France and Germany agree to co-develop next generation main weapon systems - as in fighter aircraft, main battle tanks, UCAVs and so on - this time around Greece's policy makers will decide to enter from the get go, as partners, rather than buy or assemble the off-the-shelf finished article. The reason is that (a) Greece's transformed economic policy regime, I just referred to, no longer makes it acceptable for the country to just be a consumer or low value added assembler of highly advanced and highly expensive military technology (b) such enhanced defence industrial cooperation between France and Germany will be contextualized in Greece through the rising status of the EU as a collective security provider. Thus, my judgment call is that Greece will bite the bullet and commit fiscal resources – as in the form of matching R&D

grants, capital infusions in still state controlled defence industry firms and so on – so that Greek defence firms can be participants in such Franco-German led consortia. The US will continue to be the provider of part of the Hellenic Air Force fighter aircraft fleet, via the currently upgraded F16s to the Viper configuration, and the future acquisition of twenty F35s, for decades to come. Extensive US base facilities in Greek territory, which also act as trip wires for Greek defence, will make up for this, relatively speaking, reduced US role in Greek weapons procurement.

2. In the medium term, the Greek defence industry will continue to be constrained in its innovation capacity due to the unwillingness of the Greek government to commit critical national funding to R&D, either via matching grants to the defence industry or via grants to Greek public research organisations which can catalyse and complement defence industry R&D.
3. I will make a policy recommendation here, considering that with the exception of Finland, all EU frontline states are either emerging or moderate, in the case of Greece, innovators, according to the European Innovation Scoreboard. I believe either the EU Commission, or an intergovernmental EU mechanism, should fund directly purely national defence-related R&D, with matching funds by front line states. By doing so, to the tune of 50-50, say getting a grant total, per annum, of one hundred million euros for defence R&D in Greece, such matched funding would catalyse the co-creation of defense innovation: between public research organisations, defence firms and the Greek armed forces. In such critical countries as Poland and Greece, such catalysation would enhance their connection with CSDP and help create innovation that is relevant to all EU and NATO-member countries – as indeed Ukraine is doing under the crucible of war.
4. Where great promise lies, across all timeframes, short, medium, long, for the Greek defence industry is in the start-up sector, which has been growing with the equity stakes, in Greek venture capital firms, of EIB as I mentioned earlier. The faster the EIB constraint in funding only dual use activities is lifted, and Greek

start ups and established medium sized defence firms, oriented only in military use products and services, can access EIB funding facilities, entrusted to Greek venture capital firms, the more able the start-up ecosystem will be to leverage its expertise and networks and thus strengthen the Greek defence industry altogether. I would assume that this point also applies to other frontline EU states to the extent that they are similarly reliant, due to their fiscal limitations, on EIB funding for the growth of their high tech start-up ecosystem.