

DEFENSE TRANSFORMATION AND MARKET STRUCTURES: TOWARDS A SUPPLY-DRIVEN PROVISION?

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Defence market has been crucially evolving quite dramatically since the 1980s in Europe, with a clear acceleration since the late 1990s. Relationships between States and firms go through many changes which engender new forms of contractual models. Such a trend is illustrated by the spreading of the Private Finance Initiative throughout Europe. This transformation results from major transformations from both demand and supply sides:

- States have to face two constraints. Prices of defence systems have been structurally increasing, reducing the ability of States to make large acquisitions to benefit from scale economies; and defence budgets are under pressure because of the end of Cold War, competition from social expenditures and the dominance of fiscal conservatism.
- National defence industrial bases have been engaged in a deep restructuring since the late 1980s in Europe, since firms can no longer rely only on their domestic market. This trend gives birth to multinational groups with strong interests in the main defence markets in Europe.

Many observers expressed concerns about this evolution in terms of balance of power. Indeed it reinforces the "natural tendency" of defence activity to constitute an extreme case of market structure: bilateral monopolies. One may even wonder if such a particular business must be under State control when a quasi natural monopoly emerges from the restructuring process.

However it is possible that such a usual analysis misses the point. Beyond the classical analysis of bilateral monopolies, can these changes lead to a structural transformation of defence market? Indeed, on demand side, today's needs are quite different from what armed forces procured twenty years ago. Similarly, defence firms have to adapt their offers to meet new requirements. In fact defence market seems to evolve from a product-driven supply to a services-based market.

Such an evolution has strong implications when we try to understand what defence market is. This not only redraws the boundaries of this sector, but also modifies substantially the analysis of competition process. Indeed the national framework may not be as relevant as it was during the Cold War, and it can even become under-efficient to constraint firms' strategy in such a framework.

The proposed paper aims at proposing a new definition of defence market, and analyzing its implications at the European level. Actually it is interesting to understand how the raising European Defence Agency and national States can adapt their industrial policies to strengthen the European defence industrial and technological basis despite stagnant budgets. The European level is truly relevant because the most radical evolutions take place here, due to stronger constraints than in the United States.