

Defence procurement – a minefield for Germany's new defence minister

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On 20 February, the German Defence Minister Ursula von der Leyen dismissed her secretary of state, Stéphane Beemelmans, responsible for defence procurement, as well as the director of the procurement department. This spectacular sackings once again highlighted the problems the German Ministry of Defence has been having with its major defence procurement projects. These concern spiralling costs, delivery delays, and failures to meet technical requirements. The problems have arisen not only from the mismanagement of the projects, but are also a consequence of the government's policy in relation to the German arms industry, the realities of European armaments cooperation, and changes in the Bundeswehr's technical requirements during the projects' implementation. The new structures and procedures in defence procurement introduced in 2013 are improving future project management. However, for budgetary reasons new major projects cannot be expected during the government's current term. Minister von der Leyen will struggle with the consequences and costs of the existing projects; and if a more restrictive policy towards the German defence companies is chosen, she will either have to reckon with the industry campaigning against the ministry, or compensate for such a policy by increasing government support for exports of German armaments and military equipment abroad.

A 'cleanup' in the Federal Ministry of Defence

The dismissals took place in connection with von der Leyen's dissatisfaction at the lack of transparency and the problems in the management of major defence procurement projects. These were introduced to her on 19 February at the meeting of the defence procurement board with secretaries of state and departmental directors. Another reason was Beemelmans's decision to pay €55 million in compensation in December 2013 to MTU Aero Engines, a German aircraft engines manufacturer, of which neither von der Leyen nor parliament's budget committee were informed. The payment was made because the Ministry of Defence cancelled the order for tranche 3b of the 37 Eurofighter multi-role fighters, which were to have used MTU engines. Beemelmans was also burdened by the political responsibility for last year's scandal concerning Germany's cancelling the Euro Hawk project and its enormous costs. The prospect of new scandals in defence procurement inclined von der Leyen to get rid of Beemelmans and to symbolically open a new chapter in the ministry's policy; this should be achieved by the external audit of the largest procurement projects which has just been announced.

Beemelmans's resignation deprived the new minister of the last secretary of state in the Ministry of Defence who had any substantial knowledge in politico-military issues; it is worth noting that the heads of the procurement and defence policy departments were also dismissed. Beemelmans had close ties to the previous defence minister, Thomas de Maizière, who had worked since 2011 on developing and implementing one of the biggest reforms to the Bundeswehr and the ministry in recent years. The reform concerned reductions in the size and introducing professionalisation; changes in the organisation of the branches of the armed forces, in command structures, in the relocation of units, in training, in adjusting quantities of armaments and military equipment, and in the organisation of the ministry. In the new CDU/CSU-SPD government, Beemelmans oversaw the ministry's most important departments (including defence policy, procurement and the reform of the Bundeswehr), and had the task of ensuring the continuity of defence policy and the transformation of the Armed Forces for a minister who was new to the office. His departure is not expected to bring major changes in the transformation of the Bundeswehr, as the reforms of structures and processes have now gone too far to be rescinded. In this area, the new minister will focus on enhancing the attractiveness of the Bundeswehr as an employer in Germany (including financial and social matters, and reconciling military service with the family), as well as the ministry's communication policy.

Problems with Germany's major defence procurement projects

The problems with major defence procurement projects in Germany did not come out of the blue, but have been known about for several years at least. They primarily concern costs much larger than initially estimated; frequent failures to meet delivery deadlines; and just as frequent supplies of materiel that has defects, or does not meet the technical requirements set by the Ministry of Defence and the Bundeswehr. This applies to almost all the important German defence procurement projects (see Appendix): the Eurofighter multi-role fighter, the A400M transport aircraft, the NH90 medium-size transport helicopter, the Tiger combat support helicopter, the MANTIS very short- and short-range air defence system, the Puma infantry fighting vehicle, the K130 missile corvette, the 212A submarine, and the Type 125 frigate. In extreme cases (such as the Euro Hawk unmanned reconnaissance aircraft and the MEADS medium-range air and missile defence system) – despite several hundred million euros having been spent on research and development – these projects did not end in the Bundeswehr taking delivery of ready-made systems, but only in the participating companies receiving individual components (due to problems with the certification, or because the partners withdrew from the project).

These problems, whose current face is that of Beemelmans, have their roots not so much in the improper management of the large defence procurement projects, which have *de facto* been operating in an ineffective way since the 1990s. They are the consequence of the German government's policy in relation to the country's arms industry; the reality of European armaments cooperation; and the changes in the Bundeswehr's technical requirements during the implementation of projects, related to altered operational circumstances and technological progress. The arms industry in Germany – although it is entirely private, except for a 12% stake held by the state's KfW Banking Group in Airbus, previously EADS – has, by means of the ministry ordering modern products which are under

development, and thus the German defence budget covering the huge research and development costs, been *de facto* partially subsidised by the German state. The federal government has thus contributed to maintaining and developing the German technological and industrial base at the highest level in certain segments of the market (production for the land forces, i.e. armoured units and mechanised infantry, and for the navy). In cooperation with other European countries, within the framework of Airbus (previously EADS), Germany tried to form this base on other segments (such as production for the air force). Both resulted in costs much higher than expected, which was connected with a project management that did not take the various risks into account – whether in the form of technological difficulties, or problems either legal (such as product certification) or political (in the case of multinational projects, the need to coordinate the work of many separate companies in several EU countries, and the production of military equipment to different national technical specifications). To this must be added the change in the Bundeswehr's tactical and technical requirements. The best example is the Tiger combat support helicopter, which was originally designed in the early 90s to combat armoured formations, and now since the transformation has to operate in asymmetric conflict scenarios such as Afghanistan. All these factors have resulted in an explosion of the costs and delivery delays. This is especially true today, when the products of the largest German procurement projects are being delivered and the projects summarised. An additional problem is connected with the Ministry reducing the amount of originally contracted materiel (due to budget savings and a reduction in the size of the Armed Forces), and bearing the costs of compensation which is either guaranteed, or which the German defence companies will seek.

The ministry's new defence procurement policy

The problems presented above caused major changes in the defence procurement structures and processes that came into force in January 2013. They were also a part of the comprehensive reform of the Bundeswehr carried out by the previous minister, Thomas de Maizière. It should be noted, however, that they primarily concern the new projects. In terms of structures, for planning, coordination and procurement carried out nationally and multinationally, the ministry's department for equipment, information technology and in-service support is responsible. The Federal Office of the same name is subject to this department. In terms of processes, the project management (so called Customer Product Management, consisting of three phases: analysis, realisation, in-service) has been revised. Each phase of the project is implemented by so-called integrated project teams, composed of representatives of the Ministry of Defence, the Armed Forces (the future users of the materiel) and industry (in so far as this is useful for implementing the project and is legally permissible). Documentation on tactical & technical requirements should contain detailed information about the length and cost of the project, the total cost of the product life cycle, and possible technological and certification problems in Germany. A 'design freeze' has also been introduced; this means reducing the possibility of changes in technical requirements to projects that are ongoing. All this is aimed at ensuring the early identification of potential technological, financial and legal risks, and thus the better project management. These solutions prioritise the timely delivery and adherence to agreed budgets, over the desire to achieve the highest possible technological level of the materiel, or a one hundred percent fit to the Bundeswehr's current operational needs.

It should be borne in mind that the largest defence procurement projects will follow the old pattern, and until about 2020 will absorb about 90% of the investment funds. Given the current situation of the German defence budget (currently running at c. €32 billion yearly by 2016, of which 23% is spent on research & development and the acquisition of new materiel), starting new major projects, and applying these new procedures to them, is unlikely during this term of government. Minister von der Leyen will have to bear the consequences and costs of the existing projects. However, if she adopts a more restrictive attitude towards the German defence companies with regard to the ongoing projects, we can either expect these companies to start protesting the losses of jobs and technological competence in Germany against the ministry's actions, or that the German government will take compensatory actions in the form of increased support for exports of German armaments and military equipment abroad, where defence spending is either stable or growing, i.e. mainly to countries outside NATO and the EU.

Appendix

The biggest German defence procurement projects (selected)

Project	Manufacturer	Contract for serial production	Delivery of serial copies	Amount
Eurofighter multi-role fighter	Eurofighter Jagdflugzeug	1998	2004-2015 (tranche 1, 33) 2009-2015 (tranche 2, 31) 2015-2018 (tranche 3a, 37) (planned since 2002)	143 (reduced from 177)
A400M transport aircraft	Airbus Military	2003	2014 - ... (planned since 2011)	40 (reduced from 60)
Tiger combat support helicopter	Eurocopter (currently Airbus Helicopters)	1998	2010 - ... (planned since 2002)	46 (reduced from 80)
NH90 medium transport helicopter	NH Industries	2000	2013 - ... (planned since 2004)	82 (reduced from 122)

Puma infantry fighting vehicle	KMW and Rheinmetall Defence	2004	2010 - ... (not yet in service because adjustments still necessary; planned since 2009)	342 (reduced from 410)
Type 125 frigate	ThyssenKrupp MS and Lürssen	2007	2017 - ... (planned from 2016)	4
212A submarine	ThyssenKrupp MS	1994	2005 -2011 (first 4) 2015 - ... (remaining 2) (planned since 2004 and 2014)	6
K130 missile corvette	ThyssenKrupp MS and Lürssen	2001	2008 (first 2) 2012 (remaining 3) (planned in 2007 and 2008)	5