

# European defence industrial strategy

## SUMMARY

The European defence industrial strategy (EDIS), unveiled on 5 March 2024, aims to enhance the EU's defence readiness, particularly its defence industrial capacity, by 2035. Despite a significantly increased €290 billion combined EU Member State defence budget in 2023 and a radically changed security environment following the launch of Russia's war of aggression against Ukraine, significant challenges for the EU to achieve defence readiness remain. The European defence technological and industrial base (EDTIB) suffers from fragmentation and limited collaboration, exacerbated by EU Member States' dependency on non-EU defence equipment.

The EDIS emphasises collaborative and increased European investment in the EDTIB, fostering adaptability, and integrating defence readiness into all EU policies. It proposes, among other initiatives, the €1.5 billion European defence industry programme (EDIP), a new (voluntary) legal framework – the 'structure for European armament' programme – to facilitate and scale up Member States' cooperation throughout the defence equipment lifecycle, as well as several ways to ensure increased financing for the EDTIB. The strategy also proposes to deepen the partnership with Ukraine, aiming for long-term assistance and support for the Ukrainian defence industry. According to experts, the EDIS's success hinges on securing adequate funding and achieving genuine Member State buy-in. Experts doubt the sufficiency of the proposed funding and the feasibility of meeting non-binding targets, such as 50 % of procurement stemming from the EDTIB by 2030.

At the end of the previous legislature, Members of the European Parliament urged that the EDIS and the EDIP should supplement current defence tools, ensuring sufficient EDIP funding and a regulatory framework to foster innovation and efficiency. They called on Member States to fund European defence instruments, supported a €100 billion debt-financed defence fund proposed by Commissioner Breton, and urged the European Investment Bank to reform its lending eligibility.



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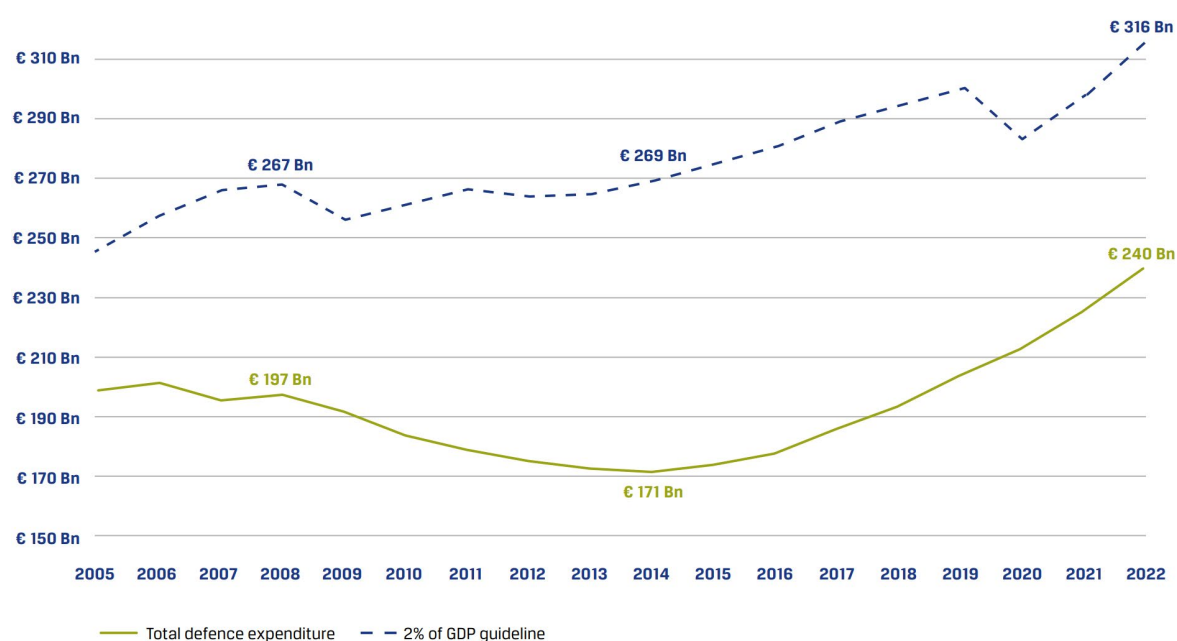
## Introduction

On 5 March 2024, the European Commission – together with the High Representative and the European Defence Agency (EDA) – [presented](#) the first-ever European defence industrial strategy (EDIS). Commission President von der Leyen [revealed](#) the plan in her 2023 State of the Union address. With Russia's unprovoked aggression against Ukraine in 2022, high-intensity warfare returned to Europe. According to EDIS, the EU must therefore quickly improve its defence readiness, especially its defence industrial readiness, as according to the Commission, 'a strong EU defence industry is an essential pre-requisite to achieve defence readiness'. The EDIS lays out a vision for a European defence industrial policy up to 2035, and announces actions that bolster the EDTIB through 'increased, more collaborative and European investment from Member States'; strengthen the European defence industry's ability to respond quickly and adapt to any situation; mainstream a culture of defence readiness across all EU policies; and join forces with the EU's global, like-minded, and strategic partners.

## Background

At the Versailles Summit in March 2022, the EU Heads of State or Government [agreed](#) to 'develop further incentives to stimulate Member States' collaborative investments in joint projects ... of defence capabilities' and to 'take measures to strengthen and develop our defence industry, including SMEs [small and medium-sized enterprises]'. EU leaders also called on the Commission and the EDA to put forward an analysis of the EU's defence investment gaps and to propose any further initiative necessary to strengthen the EDTIB. This was reiterated in the March 2022 [Strategic Compass](#).

Figure 1 – Total defence expenditure and 2 % of GDP guideline



Source: [EDA](#). 2022.

On 18 May 2022, a [joint communication](#) on the defence investment gap analysis and way forward was adopted, which identifies [gaps](#) in three areas: capabilities, industry and investment. In terms of investment gaps, the analysis notes that if all Member States had spent 2 % of their gross domestic product (GDP) on defence, with 20% dedicated to investment from 2006 until 2020, this would have resulted in approximately an additional €1.1 trillion for defence, of which around €270 billion on investment. (The 23 EU Member States that are also members of the North Atlantic Treaty

Organization (NATO) are guided by NATO's norm, formalised at the 2014 Wales Summit, of spending 2 % of GDP on defence; see Figure 1 above).

**European defence technological and industrial base (EDTIB)**

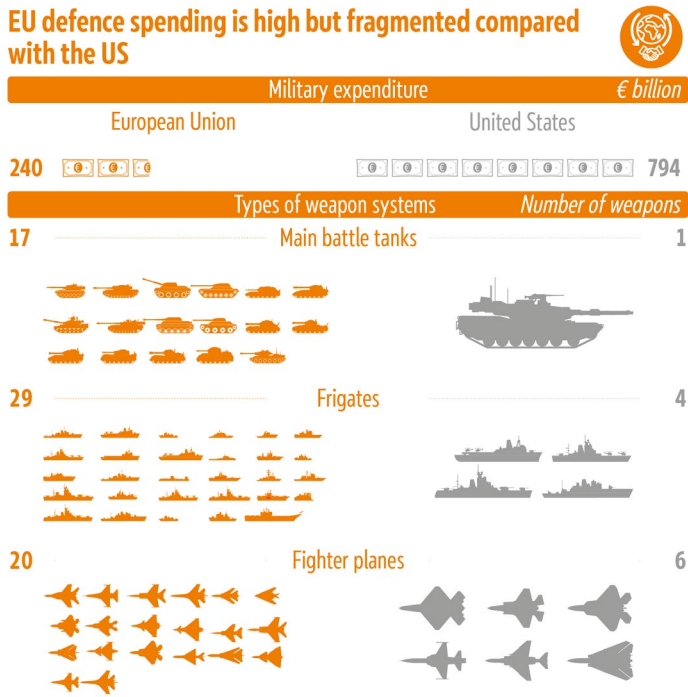
The EDTIB consists of large multinational companies, mid-caps and over 2 000 SMEs. The Commission estimates its annual turnover at €70 billion, with substantial exports amounting to €28 billion in 2021. The European defence industry is dominated by companies based in France, Germany, Italy, Spain and Sweden. However, 23 Member States are home to the prime manufacturers of the 46 most urgently needed items, according to the Defence Joint Procurement Task Force's industry mapping. The EDTIB is also a major employer with around 500 000 people employed in the sector.

Source: [European Commission](#); [ASD Europe](#).

A historical low of €171 billion was reached in 2014. Defence budgets have increased in the past decade (see Figure 2); however, particularly since the full-scale Russian invasion of Ukraine, they have increased rapidly: a combined defence budget of €240 billion was achieved in [2022](#) and of an estimated €290 billion in [2023](#). Commission President von der Leyen [estimates](#) that the combined defence budget in 2024 will rise to €350 billion. The lack of investment is exacerbated significantly by the fact that large amounts of the EU-27 defence investment budgets are spent abroad rather than on procuring equipment from the EDTIB. Indeed, 78 % of defence equipment acquisitions by EU Member States between February 2022 and June 2023 were done abroad, of which 63 % were from the United States (US).

In terms of industrial gaps, the EDTIB is fragmented on both the demand and supply side. According to the investment gap analysis, the primary source of demand for domestic defence industries are their national governments, which also set the export regulations and oversee the entire procurement process for defence equipment. This has caused national defence companies operating in small markets to produce products in quantities that are wholly insufficient for the current geopolitical environment. This is further [exacerbated](#) by the fact that 'defence planning remains stuck at the national, rather than at the European or even Atlantic, level', leading to even more fragmentation. This is highlighted by the [Strategic Compass](#), which notes that for EU defence initiatives to be successful, they must be incorporated in [national defence planning](#). According to the EDA's 2022 Coordinated Annual Review ([CARD](#)) report, only 18 % of investments in defence programmes are made in a cooperative manner. Additionally, only 18 % of defence procurement is [collaborative](#) – far below the 35 % [agreed](#) within the EDA framework. As a result, 82 % of funding for defence programmes and procurement is allocated nationally. Indeed, as the 2022 CARD report states, 'cooperation remains the exception rather than the norm', which has large financial repercussions: a 2022 EPRS [study](#)

Figure 2 – Fragmentation of EU defence spending compared with the US



Source: [EPRS](#), 2024, based on EDA, [Defence Data 2022](#) and [European Defence Matters 2017](#).

found that increased collaboration could result in annual cost savings of between €24.5 billion and €75.5 billion. Lack of cooperation also hampers the EU's capacity to act: in its 2020 CARD report, the EDA concludes that fragmentation impairs Member States' [capacity](#) to conduct joint operations, which is a clear deliverable of the Strategic Compass and the common security and defence policy (CSDP).

The EDTIB is mostly organised along national borders on the supply side, and it is very fragmented, particularly outside the aerospace and missile industry. This, according to the Commission analysis, 'greatly reduces its ability to improve its competitiveness through pooling of R&D [research and development] and economies of scale in production'. The same holds for the defence industries' supply chains. The 2 500 SMEs critical to Europe's intricate defence supply chains mostly [operate](#) at the national level, with little cross-border collaboration. This fragmentation [leads](#) to duplication, hampers interoperability, and makes logistics and cooperation on military equipment maintenance much more difficult.

In the past, the European Commission was never [given](#) significant control over defence industrial policy, owing to fears of duplication with NATO and Member State resistance to ceding decision-making sovereignty over defence issues. In 2009 however, to address the specific nature of defence procurement and build an open and competitive internal market for defence products, the EU took steps to regulate the defence market. The [Directive](#) on defence and sensitive security procurement, which sets out EU rules for the procurement of munitions, arms and war material, entered into force in 2009. A further piece of legislation, the [Directive](#) on intra-EU transfers of defence-related products, was adopted (also in 2009) to simplify intra-EU defence-related product transfers. Initiatives to incentivise joint research and development of defence equipment followed, such as the European Defence Fund ([EDF](#)) set up in 2017. The Commission stepped up its [efforts](#) when the full-scale Russian invasion of Ukraine began. Among the Commission's and the High Representative's proposals to remedy the gaps identified in the defence investment gap analysis was the €310 million European Defence Industry through Common Procurement Act ([EDIRPA](#)), which seeks to encourage joint procurement of defence equipment. Other EU funding programmes in the defence industrial domain include:

- the €8 billion EDF, aimed at boosting the EDTIB's competitiveness by incentivising joint research and development of defence equipment for the 2021–2027 multiannual financial framework (MFF) period (plus a €1.5 billion top-up during the MFF mid-term review) and its precursor programmes, the €90 million Preparatory Action on Defence Research (PADR) and the €500 million European defence industrial development programme (EDIDP);
- the €500 million Act in Support of Ammunition Production (ASAP), which entered into force in July 2023, to support the ramping up of production of ammunition and missiles;
- the proposed (in 2024) €1.5 billion European defence industry programme (EDIP), as a first means of delivering the EDIS (€1.5 billion from the EDF).

In their June 2024 European Council conclusions, EU leaders [invited](#) the Council, Member States, Commission and the High Representative to take forward work on the EDIS and the EDIP, with a view to its adoption by mid-2025.

## Investing more, better, together and European, and making the EDTIB more efficient and responsive

The [EDIS](#) underlines that significantly greater investment at national and European level is required to adapt the EU industry, make it more innovative and competitive, to face the radically changed geopolitical environment. According to the strategy, it is essential that the EU make the most of the substantial increase in funding in order to achieve defence industrial readiness.

To assist Member States in investing more, better, together and European, the EDIS puts forward several new initiatives. Within the EDIP, the Commission proposes to set up a new (voluntary) legal framework – the structure for European armament programme (SEAP) – to facilitate and scale up Member States' cooperation throughout the defence equipment lifecycle, from development to maintenance. The SEAP should [function](#) 'as a vehicle to underpin and strengthen defence cooperation, including in the context of PESCO [permanent structured cooperation], if so agreed by Member States'. PESCO is a legal framework established in 2017 to enable its 26 participants (all 27 Member States except Malta) to deepen defence cooperation through legally binding [commitments](#) and [cooperative defence projects](#) (currently 68 projects in domains such as maritime, air and cyber). Participation in the SEAP will require three or more Member States, and is also open to Ukraine and associated countries. Where equipment purchased through the SEAP (functioning as an international organisation) is owned jointly by Member States, they will receive a value added tax exemption. The EDIP will provide a bonus when equipment is developed and procured in the context of a SEAP 'if the concerned Member States agree on a common approach to exports for defence'.

Moreover, the Commission put forward an EDIP with a proposed budget of €1.5 billion, as a first means of delivering the EDIS for the 2025–2027 period. The Commission further proposes to extend, within the EDIP framework, the intervention logic of EDIRPA in the procurement of equipment in order to promote collaborative procurement. Moreover, the EDIS sets (non-binding) indicators to track EU countries' progress towards defence industrial readiness: they should ensure the value of intra-EU defence trade is 35 % or more of the EU defence market's value by 2030 (currently 15 %), and procure at least 50 % of equipment through the EDTIB by 2030, and 60 % by 2035. Furthermore, it sets a non-binding target according to which Member States should procure at least 40 % of defence equipment through cooperation by 2030 (current level is 18 %, below the 35 % set in the EDA framework). To support interoperability and interchangeability, the Commission will also promote the use of agreed civil or defence standards such as NATO Standardization Agreements ([STANAG](#)); to address certification-related issues, it will support rapid cross-certification activities.

To guarantee the coherence of EU action in the defence industry, the EDIS proposes a Defence Industrial Readiness Board, which would include representatives of the Member States, the EU High Representative and the Commission. The board should carry out the EU defence joint programming and procurement function called for in the defence investment gap analysis. The proposed EDIP regulation would formally create the board, which would also assist in the EDIP's implementation. One function would be the 'joint identification of possible projects of common interest to focus EU effort and funding programmes'. In parallel, a high-level European defence industry group, meeting in specific configurations and with a consultative function, would guarantee efficient government–industry cooperation and foster dialogue and involvement. European Defence Projects of Common Interest may be initiated through the EDIP (possibly with potential financial assistance from the EU through the EDIP), to support the implementation of EU capability development priorities, and secure and protect the EU and Member States' unrestricted access to 'strategic domains and contested spaces'.

Furthermore, the establishment of a trial European military sales mechanism is envisaged, to raise awareness of the availability of the EDTIB's defence products (through a centralised, up-to-date catalogue of defence equipment developed by the EDTIB), and facilitate the procurement process, including 'government-to-government' purchases. The Commission suggests testing the mechanism through a pilot project within the EDIP, with a view to creating a fully fledged version from 2028. According to the EDIS, the pilot mechanism will be organised in four pillars: (i) a catalogue of defence products; (ii) financial support for the creation of pools of defence capabilities being quickly available; (iii) provisions to ease procurement processes; and (iv) capacity-building measures for procurement agents.

The EDIS also stresses that the EDTIB should become more resilient and responsive. This is about setting up the industry in the EU to be able meet the Member States' demands in time and scale. To do so, the Commission proposes to expand the ASAP intervention logic beyond ammunition and

missiles. The Commission would also support the build-up of reserved surge manufacturing capacities ('ever-warm' facilities) through the EDIP, to maintain production capacity during less demanding times (e.g. by providing funding for machine tools and relevant staff costs), and explore options for the possible repurposing of civilian production lines for defence production purposes in times of crisis. The Commission also proposes, within the EDIP framework, the possibility of creating a fund to accelerate defence supply chain transformation (FAST), which would aim at 'facilitating access to debt and/or equity financing for SMEs and small midcaps' involved in the industrialisation of defence technologies and/or production of defence production. The Commission would use repayable grants under the EDIP to offer ongoing support for the industrialisation of defence cooperative actions that were first funded by the EDF. Moreover, the Commission suggests implementing a phased and modular EU security of supply regime to improve efficacy and unity in handling supply chain disruptions or security emergencies, as well as to facilitate the prompt detection of possible bottlenecks.

Many [analysts](#) note that the EDIS is expected to face difficulties in implementation because of the lack of funding. There is consensus among [experts](#) that the strategy's proposed EDIP, with a proposed €1.5 billion budget, cannot have a significant impact in the near future up until 2027. An expert at [Bruegel](#) think-tank notes that 'the proposed €1.5 billion for industrial development is obviously not going to make a significant difference for a sector with a €70 billion turnover'. Experts from the Center for Strategic and International Studies ([CSIS](#)) concur that this will be insufficient to achieve the strategy's goal of a fundamental shift in defence readiness, nor will it be able to impact national defence planning significantly. On the issue of governance and the role of the European Commission, [pundits](#) point out that EU Member States continue to be in charge of security and defence policy, and that it is rather unclear how the current EU Treaties allow the Commission to play a more important role in defence planning. In this regard, [Jacques Delors Centre](#) experts emphasise that it will be difficult for the EU to assume a more expansive defence mandate in the absence of Treaty change. Many experts express worry that the EDIP and the EDIS may be [seen](#) as a 'power grab' by the Commission. Conversely, a paper by the Institute for European Analysis and Policy ([LUISS](#)) argues that the content of the EDIS does not signify a break with the Commission's initiatives in the field of the defence industrial policy that have been implemented since the 1990s, despite the fact that it sets out clear political objectives. The interventionist tools presented in the EDIS do not have the funding or political will to accomplish the goals outlined – despite the Commission's aspirations, the intergovernmental paradigm remains unchanged. This is mostly because no enforcement mechanism is in place.

In terms of benchmarks, many [analysts](#) see few reasons why the benchmarks that have been set should be reached, not least because of Member States' failure to meet similar existing benchmarks for defence in terms of collaborative procurement and joint R&D in the past. There is also concern that the goal to 'buy European' will not be met, given the current figures. A [Carnegie](#) expert underlines in this regard that the EU maintains its 'addiction' to buying US equipment, as this also comes with US security guarantees. A European Council on Foreign Relations ([ECFR](#)) expert argues that 'the EU will have to convince them [Member States] – and their industries – of the added value of this approach, including, for some on the choice to buy European'. [Daniel Fiott](#) from Elcano Royal Institute states the main issue, namely that 'many of the targets set out in the [EDIS] come with carrots but no sticks. Given the past non-binding targets or benchmarks set by the EU under the auspices of the EDA and/or PESCO, it remains to be seen how far Member States are truly convinced of the need to engage in joint collaboration'.

[ECFR](#) raises further concerns: the second thing the Commission needs to clarify is how various financial tools work. These include the European military sales mechanism, the SEAP and the Fund to Accelerate Defence Supply Chain Transformation (FAST). On the European military sales

#### United States Foreign Military Sales Programme (FMS)

The US government offers security assistance through the Foreign Military Sales (FMS) programme, which makes it easier for foreign governments to purchase American weapons and defence services. Under the FMS government-to-government programme, the Defense Security Cooperation Agency (DSCA) of the US Department of Defense purchases defence equipment on behalf of foreign governments, shielding them from contract risks during negotiations with the arms industry, and offering the same benefits and protections under the contract as those applicable to US military acquisitions. The 1976 Arms Export Control Act (AECA) created the FMS programme. The DSCA calls it a 'fundamental tool of US foreign policy'.

mechanism, Fiott notes that viewing this initiative as an attempt to replicate the US Foreign Military Sales (FMS) programme (see text box) – in the way the EU describes its mechanism in the EDIS and the proposed EDIP regulation – would be a mistake. Although the description of the mechanism in the strategy appears after that of the FMS's success, the EU's proposal cannot be considered a 'fundamental tool of foreign policy', unlike the FMS. Since the EDIS's main goals are to effectively create a database on the stocks of equipment available in the EU and

facilitate the streamlining of procurement processes, it is far less ambitious than the FMS. Even when combined with the SEAP, what the proposed mechanism would offer are financial incentives such as a bonus or VAT exemption under the forthcoming EDIP, in addition to regulatory streamlining.

[Fiott](#) concludes that:

*even if the language of an enlarged industrial policy has been used in the Strategy, there are clear limits to the Commission's proposals and what they think member states can (or will) stomach. In this sense, beyond the proposed financial incentives, there are no real steps forward in fashioning an EDTIB that produces defence equipment in Europe for Europeans – if, indeed, this is how 'Buy European' should be understood.*

## Financing the EDTIB

In terms of defence financing, the EDIS proposes, among other things:

- inviting the European Investment Bank (EIB) to review lending policy in 2024, to adapt defence-related exclusions;
- putting in place an EDIP for the 2025–2027 period as a gap-filler towards the next MFF;
- substantially increasing the funds for EU defence in the next MFF, starting in 2028;
- improving dialogue between the defence and financial sectors, and offering guidance on how to implement the EU sustainable finance framework;
- promoting enhanced funding for defence readiness, security and resilience through EU funding programmes; future EU programmes would also take this goal into account as they are being prepared.

Separately, EU Commissioner for the Internal Market Thierry Breton pitched a debt-financed €100 billion fund during an event in January 2024 to boost joint procurement of defence products.

In November 2023, EU defence ministers endorsed a [statement](#) on strengthening the EDTIB's access to finance and its ability to contribute to peace, stability and sustainability in Europe, which underlines the necessity of increasing the EDTIB's access to both public and private finance. In the March 2024 European Council [conclusions](#), EU leaders noted that they are committed to enhancing overall defence readiness and capabilities to meet EU needs and ambition. To improve the EU's defence readiness, they committed inter alia to a substantial rise in defence spending, quicker and better collaborative investments, enhanced access to public and private funding, and innovative

defence products. They invited the Council and the Commission to investigate all options to mobilise funding and to report back in June, and the EIB to modify its lending policy to the defence industry and its current definition of dual-use goods. They also invited the High Representative and the Commission to move quickly to implement the EDIS and to take forward the work on the EDIP. At the June 2024 European Council [meeting](#), EU leaders held discussions on options to mobilise funding for European defence, and invited the Commission and the High Representative to 'present developed options, to be discussed by the Council, for public and private funding to strengthen the defence technological and industrial base and to address critical capability gaps'. EU leaders also welcomed the [security and defence action plan](#) adopted by the EIB. They called for its swift implementation and to assess and, as appropriate, further adapt its 'lending to the defence industry, while safeguarding its financing capacity'.

Breton's call for the €100 billion was supported by French President Emmanuel Macron, who has [called for](#) a fund mirroring the EU's joint pandemic recovery fund with one for defence spending. Similar [calls](#) have been made by then Estonian prime minister (and now High Representative-designate), Kaja Kallas, and European Council President [Charles Michel](#). Moreover, according to news reports, Czechia, Luxembourg and Finland appear [receptive](#) to the idea of discussing new euro bonds as long as the money raised is used exclusively for defence. [CSIS](#) experts already suggested such an approach in the past: 'Following the model of the €750 billion ... Next Generation EU recovery plan, the European Commission could borrow on capital markets to either support collaborative investments or pursue joint procurements on behalf of Member States.' However, a Carnegie analyst doubts that such a fund will ever [materialise](#).

#### European Investment Bank (EIB)

The EIB – part of the European Investment Bank Group ([EIBG](#)) – is one of the largest multilateral financial institutions globally. The bank helps small businesses by facilitating their access to financing within the EU and several other countries. The EIB provides advisory services, [loans](#), [guarantees](#), and [equity](#) investments. Ammunition and weapons, as well as military hardware or infrastructure, are expressly excluded by the EIB from its financing activities; instead, investments in dual-use goods – i.e. goods that can be used for both civil and military purposes – are permitted within the EU.

Source: [EIB](#).

The EIB started the strategic European security initiative ([SESI](#)) following the invasion of Ukraine in 2022. Under this policy, it pledged to provide up to €8 billion in funding for innovative technology projects, civilian security infrastructure, and eligible dual-use research, development, and innovation projects. For instance, it has [backed](#) an Irish cybersecurity firm with €12 million for the development of intelligence capabilities for cybersecurity. Furthermore, in January 2024, the Commission and the European Investment Fund (EIF) introduced the €175 million Defence Equity Facility ([DEF](#)), funded by the EDF and the EIF, as part of the broader EU

Defence Innovation Scheme ([EUDIS](#)). The facility's goal is to assist SMEs and mid-sized businesses in developing cutting-edge defence dual-use technologies.

In June 2023, the EIB Board decided to [increase](#) its financing for security and defence to €8 billion until 2027, to address the challenges arising from the new geopolitical environment. Concurrently, a number of EU members, such as [Germany](#) and [France](#), have been requesting that the EIB should fund essential defence initiatives. If it were to do so, it would have to alter its exclusion policy, which officials – [including](#) the former EIB head – find unsettling because they believe it would [lower](#) its environmental, social and governance (ESG) ratings (see text box below) and increase financing costs. During her [inaugural](#) speech as EIB president during the European Parliament's plenary session in February 2024, Nadia Calviño stated that boosting investments in security and defence, as well as reinforcing the European defence industry, are among her top priorities. At their meeting in February 2024, EU finance ministers [agreed](#) with this viewpoint.

During the EU finance ministers' meeting in Luxembourg in April 2024, the EIBG unveiled its [security and defence industry action plan](#). The plan fulfils the Council's [mandate](#) to increase European



defence companies' access to financing while preserving the EIB Group's financing capacity. It was [decided](#), in that regard, that the EIB would update the definition of dual-use projects (no longer imposing the condition that such projects obtain more than half of their projected income from civilian use), and that it would extend EIB credit lines to SMEs and innovative start-ups in security and defence. In addition, the EIB Group intends to improve cooperation and alliances with significant players. On 2 July 2024, the EIF and the NATO Innovation Fund, a venture capital fund supported by 24 NATO members, signed a [memorandum of understanding](#) 'to expand funding for start-ups, SMEs and midcaps in defence, security and resilience sectors'.

### Environmental, social and corporate governance (ESG) standards

Investors have been using ESG standards since the early 2000s as a set of evaluation criteria for companies. The standards are maintained by the relevant index providers. Both financial and non-financial rating agencies include ESG standards in their ratings. A robust ESG standard can lead to high ratings and help the EIB finance at a cheaper cost. Prior to the conflict in Ukraine, investors' interest in the defence sector had decreased because of ESG concerns (many companies and institutional investors explicitly exclude the defence industry), although the sector was profitable. In the wake of Russia's invasion of Ukraine, this is beginning to change. In a November 2023 statement, EU defence ministers [called](#) for 'enhanced coordination between national and EU institutions on ESG matters to mitigate negative effects on the EDTIB and to find alternative ways to enable further investments in defence, by making them more attractive to investors'. They called on the EDA 'to continue actively monitoring the impact of ESG on the EDTIB, propose appropriate measures, and report back to the Steering Board'. The EIB Environmental and Social [Standards](#) outline requirements that EIB-financed projects must meet.

Sources: [PWC](#), [S&P ratings](#), [EIB](#).

According to [Article 41\(2\)](#) of the Treaty on European Union, no expenditure that implies military or defence operations may be funded by the EU budget. However according to [Article 173](#) of the Treaty on the Functioning of the European Union, the EU is responsible for enhancing the competitiveness of European industry, which includes the European defence industry. Thus, the EU defence industry can be supported by the EU budget. To address security challenges that no Member State can handle alone, a separate [Heading 5](#) devoted to 'Security and defence' was established in the 2021-2027 MFF as of 2021. It was set at €13.18 billion (2018 prices). Amounts under this heading proved to be insufficient even in the MFF's early years. On 20 June 2023, as part of the 2021-2027 MFF revision, the Commission [proposed](#) the establishment of the Strategic Technologies for Europe Platform ([STEP](#)), to serve as a platform for promoting critical technologies in the EU, including defence-related ones. As a result of the long-term budget revision within the EU, the EDF saw a rise of €1.5 billion; these are the funds earmarked for the EDIP, according to the Commission proposal. The communication on a new EDIS states clearly that the next MFF should include ambitious defence funding. Security and defence should be among the top [priorities](#) for the next MFF, according to several experts who spoke at the April 2024 Annual EU Budget [Conference](#) 2024 on the direction of the EU budget.

As an ECFR expert [states](#), 'money matters'. According to the expert, substantial additional money can only be allocated under the next MFF. He notes that:

*the jury is still out on the Commission's most ambitious defence initiative yet, which could constitute a solid portfolio for a future defence (industry) commissioner. If the funding matches the level of ambition, and if the commission agrees a clear way forward with Member States, it could pave the way to a more autonomous and resilient EU.*

Some [analysts](#) criticise that it is unclear what funding will be available for the EDIP beyond 2027. [Fiott](#) argues that the 'real battle' will be the defence funding under the next MFF, as the strategy acknowledges. One pundit from the Centre for Eastern Studies ([OSW](#)) pointed to the fact that the ESG requirements remain a barrier to attracting private investment in the defence industry. A senior fellow at [Bruegel](#) argues that the strategy does not go far enough in expressing its clear message that the defence sector should not be excluded from ESG investment requirements. According to

[Fiott](#), 'these new sources of revenue will not be enough to fundamentally shake-up the EDTIB through EU policies'. He notes that this discussion on funding the EDIP is rather a structural discussion on how the EU should assist in financing defence. In his view, it is a fact that Member States spend very little of their budgets on collaborative programmes; if they do, then rather in multilateral programmes outside the EU or NATO framework (e.g. the Future Combat Air System ([FCAS](#)), a German–French–Spanish (Airbus, Dassault Aviation and Indra Sistemas) project aimed at developing a next-generation fighter jet and weapon system). Whether EU defence funding is structured under one title is therefore more a 'matter of semantics', and 'at present the EU Treaties make it difficult to conceive of any EU budget in the proper sense of the term'.

## Partnerships including support for Ukraine

According to the EDIS, the Commission and the High Representative will investigate ways to improve Ukraine's involvement in EU programmes supporting the defence sector, such as the EDIP; the potential for joint procurement; assistance for Ukraine's industrial ramp-up; and improved collaboration between the EDTIB and the Ukrainian defence sector. The EU will also ensure continued EU military assistance to Ukraine in the context of the Ukraine Assistance Fund ([UAF](#)), particularly by signalling demand to the European defence industry to boost production capacity in order to sustain Ukraine's war effort over the long term and encourage collaboration between the European and Ukrainian defence industries. To promote such cooperation, the EDIS proposes to hold an EU–Ukraine Defence Industry Forum in 2024 and to establish an Innovation Office in Kyiv.

The UAF was adopted on 18 March 2024 under the European Peace Facility (EPF), an off-budget fund operational since 2021 that is now worth €17 billion (including the UAF). The EPF allows for the procurement of military material, inter alia to support partner countries (e.g. Ukraine), in accordance with the [Council decision](#) establishing it. The EU has [mobilised](#) €6.1 billion from the EPF (as of June 2024) to support the Ukrainian armed forces: €5.77 billion for the provision of lethal and non-lethal military equipment to Ukraine, including €2 billion for artillery rounds and missiles, and €377 million for the EU Military Assistance Mission for Ukraine ([EUMAM](#) Ukraine). Support for Ukraine increases to [€32 billion](#) when including Member States' bilateral commitments. A portion of the windfall profits central securities depositories received from immobilised Russian sovereign assets may also be used, subject to Council approval and the High Representative's proposal, to finance support for Ukraine and its defence technological and industrial base under the proposed EDIP, Ukrainian defence needs permitting. According to the High Representative, this would amount to €3 billion per year. On 21 May 2024, the Council [greenlighted](#) the use of windfall profits from immobilised Russian assets 'for further military support for Ukraine, as well as its defence industry capacities and reconstruction'; 90 % of the funds will go to the EPF (to finance military support for Ukraine), and the remaining 10 % to EU programmes financed from the EU budget (including those that will support the Ukrainian defence industry and reconstruction).

On 6 May 2024, the EU [held](#) the first EU–Ukraine Defence Industries Forum. The forum's main goals were to address Ukraine's defence and industrial needs more effectively and to strengthen defence-industrial cooperation between the EU and Ukraine in order to provide long-term, continuous military support to Ukraine. More than 400 representatives from governments, the defence industries of the EU and Ukraine, trade associations, important partner nations and organisations, and EU institutions attended. Through joint ventures, for example, the forum paves the way to identify tangible cooperation initiatives, agreements, and flagship projects between the European and Ukrainian defence industries. In light of Ukraine's EU accession process, this is expected to encourage closer collaboration between defence companies and the progressive integration of Ukrainian industry in the EDTIB.

Cooperation in the defence industry is an integral part of the broader strategic partnership between the EU and NATO. Cooperation on defence industrial matters has been specifically [emphasised](#) in the three EU–NATO joint declarations since 2016, and forms part of 74 specific measures adopted following the joint declarations. The third EU–NATO declaration describes defence industry and

research as an area where 'tangible results' have been [achieved](#), and commits to strengthening cooperation further in this area. The eighth progress [report](#) (June 2023) notes that the two organisations 'have continued consultations on wider industry matters and concrete topics related to industry engagement, to ensure mutual awareness and sharing of best practices'. This includes reciprocal presentations, such as that given by Commissioner Breton to the North Atlantic Council in December 2022 on industrial production capacity for munitions and initiatives for refilling national stockpiles. The presentation highlights the development of staff contacts on research and innovation, especially on EUDIS, the Hub for EU Defence Innovation (HEDI) within the EDA, and NATO's Defence Innovation Accelerator for the North Atlantic (DIANA). The ninth progress [report](#) (June 2024) on the implementation of the 74 common proposals notes that both organisations kept up their discussions on specific issues pertaining to industry support and engagement, as well as broader defence industry issues. Along with the creation of the NATO Defence Industrial Production Board and the NATO Defence Production Action Plan, staff coordination also extended to the creation of the EDIS and the EDIP. The EDIS highlights the importance of improving staff-to-staff structured dialogues with NATO on topics of mutual interest. Moreover, it underlines how essential it is to strengthen mutually beneficial partnerships with strategic partners, international organisations and like-minded third countries.

### Ukrainian defence industry

In the Russia–Ukraine war, foreign military assistance has received much attention; however, it is crucial to remember that a significant portion of Ukraine's military hardware was produced domestically by its own defence sector. Ukraine has decided to strengthen its domestic defence industrial base in anticipation of a decline in foreign aid. This is meant to guarantee Ukraine's continued access to the military hardware required to counter Russia. Indeed, according to Ukrainian President Volodymyr Zelenskyy, the nation's state-owned defence sector will be [essential](#) to the country's long-term self-defence. Oleksandr Kamyshin, the Ukrainian Minister of Strategic Industries, continued by saying that the country's defence sector has the potential to become the '[arsenal of the free world](#)'. Ukraine's state-owned defence industry is undergoing a significant [transformation](#) after numerous failed reform attempts over the past decade. According to [experts](#), significant challenges are 'corruption and political interference'.

The Ukrainian defence industry, primarily represented by the state-owned conglomerate Ukroboronprom – comprising more than 130 companies, including Antonov, known for its military transport planes – plays a crucial role in the country's military capabilities. It had an annual [revenue](#) of US\$1.3 billion in 2023. Numerous European defence companies have expressed [interest](#) in collaborating with the Ukrainian defence sector. A notable development is the joint [venture](#) between Rheinmetall, a major German defence company, and Ukrainian companies agreed in February 2024. This partnership aims to produce 155 mm artillery ammunition within Ukraine, addressing the high demand for such munitions.

Sources: [Radio Free Europe](#); [Forbes](#); [Carnegie Endowment](#).

Many experts have reflected on third-country participation when it comes to the goals and initiatives outlined in the EDIS. An expert from the International Institute for Strategic Studies ([IISS](#)) points out, for instance, that the United Kingdom (UK) is not mentioned, and, as noted by a senior fellow at [Bruegel](#), nor are progressively closer EU allies such as Japan. Indeed, in this context, Bruegel points out that 'in the medium to long terms, EU policymakers need to assess whether strategic industrial policy in the defence sector should really be focused only on the EU or whether it should include partner countries such as the UK and Japan'. Additionally, a number of [articles](#) emphasised that the EU–NATO dimension, given its importance, is not mentioned nearly enough in the EDIS.

## European Parliament position

In its [resolution](#) of 18 January 2023 on the implementation of the common security and defence policy – annual report 2022, Parliament welcomed the new EU defence initiatives. It also welcomed the announced presentation of the EDIP. MEPs highlight that these initiatives constitute a major step towards a European defence union, and call for increased ambition in joint procurement by

Member States and in defence investment expenditure. Parliament urges Member States to commit to 'a significant increase' for joint EU procurement mechanisms; indeed, Parliament has [repeatedly](#) called for increased funds for defence initiatives such as the EDF and military mobility. In the resolution, MEPs also highlight the need for more active involvement of Parliament in decision-making on the CSDP and the defence industry; call for increased funding opportunities for the European defence industry; repeatedly underline the need to establish a truly European defence equipment market; highlight the positive effects of investment in the defence industry in economic and technological terms; and call for the facilitation of private funding for the defence industry, and for the industry to have sufficient access to private and public funding.

In its [resolution](#) of 28 February 2024 on the implementation of the common security and defence policy – annual report 2023, Members emphasise that additional initiatives, including the EDIS and the EDIP, should supplement current defence tools. Sufficient EDIP funding must be ensured, as well as an efficient regulatory framework to foster innovation, increase production, and guarantee smarter, efficient public investment. Parliament calls on Member States to provide the necessary funds for all European defence instruments. Members backed the plan to establish a €100 billion defence fund, and [called](#) on the EIB to reform its lending eligibility list.

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