BRIEFING

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Towards a Coherent EU Defence Investment Framework

From incentive to investment in collective security

KEY FINDINGS

- **Europe has entered a structural defence investment cycle** with the return of high-intensity warfare, Russia's long-term threat, and growing uncertainty over US security guarantees.
- **National budget increases alone risk reinforcing industrial fragmentation,** amplifying duplication, and increasing external dependencies, ultimately reducing the effectiveness of public investment.
- **The EU budget's added value lies in leverage and structuring effects.** Its strategic impact depends on its ability to steer national spending towards cooperation, joint procurement and common priorities.
- **EU defence instruments have delivered results, but gaps remain.** The European Defence Fund (EDF) has successfully stimulated cooperative Research & Development (R&D), while the Act in Support of Ammunition Production (ASAP) and the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) demonstrated the relevance of EU action in scaling up production and joint procurement. However, persistent weaknesses remain in bridging R&D to deployment and in ensuring long-term industrial preparedness.
- **The European Competitiveness Fund (ECF) marks a potential shift in ambition.** By consolidating defence, security and space under a single multiannual framework, the ECF could move EU defence funding beyond pure incentives towards a more integrated investment logic — provided there is sufficient scale, clarity of priorities and effective governance.

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Several core recommendations emerge from this analysis:

- Establish a European strategic framework for defence investment, without rigid pre-allocation. While full flexibility is necessary to adapt to evolving threats, the absence of any common EU framework would undermine coherence and democratic legitimacy. The next Multiannual Financial Framework (MFF) — and the ECF in particular — should therefore be guided by a limited number of clearly articulated European defence priority domains, politically endorsed by the European Parliament and the Council to reconcile strategic guidance with operational agility, while preserving Member States' prerogatives over defence planning.

- Concentrate EU funding on high–value-added capability areas and projects with clear European added value. EU support should focus on the most critical and widely recognised capability shortfalls. To maximise European added value, eligible projects should meet some criteria, such as demonstrating that they exceed the financial or industrial capacity of any single Member State; are multinational by design or rely on disruptive or dual-use technologies critical to Europe's long-term technological edge.

- Shift the centre of gravity from R&D towards industrial scale-up and demand aggregation. The main bottleneck facing European defence today is the ability to rapidly scale up industrial production. EU instruments should therefore prioritise financing industrial expansion, modernisation and resilience, while ensuring long-term visibility of demand through joint procurement and pooled orders.

- Address fiscal asymmetries through complementary common financing instruments. Given divergent fiscal space among Member States, relying exclusively on national borrowing risks marginalising highly indebted countries and reinforcing fragmentation. A European defence loan instrument, tightly linked to joint procurement and common priorities, should therefore be considered as a complement to support through the EU budget. Limited common borrowing could enhance participation, efficiency and solidarity, delivering greater security per euro spent.

Introduction

The negotiation of the 2028–2034 Multiannual Financial Framework (MFF) takes place within a radically changing security paradigm for Europe. The return of high-intensity warfare to the continent, triggered by Russia's aggression against Ukraine, has effectively ended the era of the "peace dividend". At the same time, US pressure on Europeans to assume greater responsibility for financing their own defence effort has never been stronger. Over the past two years, this pressure has coincided with a growing risk that the US could stop supporting Ukraine. Regardless of the outcome of the conflict or of ongoing and future negotiations, Europeans will need to ensure that their armed forces are capable both of contributing to Ukraine's long-term security and of deterring any renewed or broader Russian ambitions on European territory. This awakening of the urgency for Europe is not entirely new. The Versailles Summit — and in particular the Versailles Declaration adopted only a month after the outbreak of war in Ukraine in 2022 — provides a striking example. Since then, European members have maintained continuous commitment and support — both towards Ukraine and towards the effort needed to strengthen European defence. European institutions have multiplied initiatives to accompany this necessary ramp-up, through mechanisms such as the Act in Support of Ammunition Production (ASAP), European Defence Industry Reinforcement through common Procurement Act (EDIRPA), European Defence Industry Programme (EDIP) or Security Action for Europe (SAFE), which have introduced new instruments such as joint acquisition mechanisms or loans to Member States. The recent White Paper on defence enshrines the urgency by setting very short deadlines for action (2030). It is in this context that the next MFF must be placed, calling for a significant reassessment of the Union's defence policy instruments and the financial resources dedicated to them.

Against this backdrop, the European Commission's proposal to include a EUR 131 billion envelope for defence, security and space within a new European Competitiveness Fund (ECF) represents a historic turning point. This financial framework will also be supporting capability catch-up and the consolidation of an autonomous European defence capacity. Although this envelope covers three related areas, this note focuses specifically on the strategic and industrial challenges of the defence pillar, with the aim to provide a structured analysis and targeted recommendations. Understanding the full scope of this reinvestment requires analysing the underlying factors that have led to this change of scale.

Structural drivers of increased common investments in defence

Understanding the underlying drivers that justify a scale-up of the European defence budget is an essential strategic prerequisite. Far from being a simple cyclical reaction to recent events, the Commission's proposal is rooted in a series of deep and long-term shifts - both internal and external - which make this collective reinvestment not only necessary, but urgent. This section analyses the key factors that call for ambitious European action.

The weight of historical under-investment

Following the end of the Cold War, European countries reaped a major 'peace dividend', which resulted in chronic under-investment in their defence capabilities. The annexation of Crimea in 2014 marked a first wake-up call, leading North Atlantic Treaty Organisation (NATO) members to commit to increasing their spending to 2% of Gross Domestic Product (GDP) within 10 years. This effort has been slow and uneven. The European Commission and the High Representative of the Union for Foreign Affairs and Security Policy (HR/VP) have estimated that if this commitment had been met since 2014, an additional EUR 1 100 billion would have been allocated to European defence. It is this colossal deficit that must now be bridged.

The imperative of strategic autonomy

Two major geopolitical catalysts have accelerated Europe's awareness. First, Russia's aggression against Ukraine brutally exposed critical capability shortfalls within European armed forces. Second, the rupture in the US strategic posture – illustrated by the Trump–Putin rapprochement, the risk of US disengagement from NATO, the suspension of support to Ukraine, and latterly explicit threats against Greenland – has compelled the Union to take on primary responsibility for its own security. As the Polish Prime Minister pointed out after the London summit in March 2025, Europeans must now rely on themselves: "The paradox is that 500 million Europeans are asking 300 million Americans to defend them against 140 million Russians. We must rely on ourselves, fully aware of our potential and with confidence that we are a global power."

These shifts, combined with two technological revolutions (digital and the energy transition), are forcing Europeans to conduct a new Revolution in Military Affairs (RMA). Europe must move urgently from small expeditionary forces with limited stockpiles to trained armies capable of defending European territory, with industrial stockpiles sufficient to sustain a high-intensity conflict. Such a transformation requires a substantial increase in defence investment. Budget increases are already underway at national level — as reflected in the commitments made by European states at the June 2025 NATO summit to devote 3.5% of GDP to defence expenditure and 1.5% to infrastructure investment.

While a common threat logically supports a joint procurement rationale — with collective investment offering greater economies of scale, interoperability and stronger bargaining power — political preferences in practice have so far favoured national approaches. As recent experience indicates, member states often tolerate expensive fragmentation rather than embrace deeper European-level cooperation, as evidenced by the reluctance to establish a true defence single market and the mixed outcomes of initiatives such as SAFE, where only around two-thirds of planned financing is tied to genuinely joint purchases.

It is precisely in response to this inescapable reality that the EU budget must play a catalytic role: by acting as a 'matchmaker', creating tangible financial incentives for cooperation and joint procurement, and by progressively Europeanising the defence industrial base. Through targeted budgetary instruments, the EU can help secure and streamline defence supply chains in the name of strategic autonomy, while simultaneously delivering industrial scale effects for firms, efficiency gains for public budgets, and ultimately stronger and more credible security outcomes for Europe as a whole.

The challenge of fragmentation

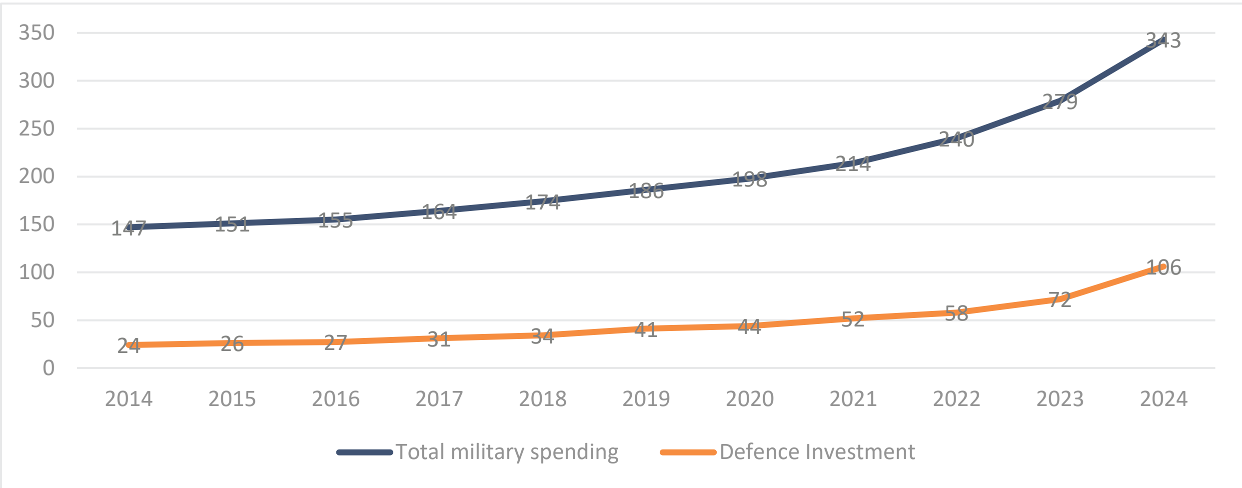
Fragmentation of the European defence market is a major, costly and dangerous handicap. Demand remains fragmented through national procurement policies, which in turn perpetuate the fragmentation of the European Defence Technological and Industrial Base (EDTIB). This two-level fragmentation results in widespread duplication of equipment. Combined with decades of under-investment, it prevents economies of scale which could be achieved through pooled production. Compared with the US Defence Industrial Bases and increasingly with emerging ones in South Korea, Turkey, Iran, China or Russia, the lack of integration in Europe's defence industry undermines its competitiveness. This is a serious and growing strategic vulnerability.

In a joint communication published in March 2024, the European Commission and the HR/VP made the same assessment. They explain that "even the Member States with the largest defence budgets are increasingly faced with difficulties in investing at the required levels on an individual basis, exposing the EU to growing capability and industrial shortfalls and increasing strategic dependencies". This first-ever European Defence Industrial Strategy (EDIS) proposes a toolbox designed to better coordinate and strengthen cooperation between European manufacturers. It proposes measures to support the collective demand of Member States, ensure the readiness of the industry in the event of crisis or conflict, guarantee the availability of equipment and the security of supplies, develop financial resources to support the industry and promote a more reactive industrial culture.

The risk of "renationalisation" of spending

There is a paradox inherent in the necessary and significant increase in national defence budgets. If this effort remains uncoordinated at European level, it risks reinforcing fragmentation, amplifying duplication and increasing external dependencies, thereby undermining the overall effectiveness of public investment. In such a context, poorly aligned national and EU-level spending could even prove counter-productive, by resulting in double funding without delivering additional capability. Cooperation is therefore not only desirable but essential to ensure complementarity between national and European instruments, so that each additional euro – whether spent nationally or through the EU budget – contributes to a coherent, efficient and genuinely European defence effort.

EU Members States' Total Military Spending and Defence Investment (in billion EUR – 2014/2024)[1]



Source: European Defence agency – https://www.eda.europa.eu/publications-and-data/defence-data#

Even though, regardless of the final amount allocated to defence in the next MFF, this envelope will not represent a substantial addition to national defence budgets — which operate at a completely different scale (see chart) — EU funding can nonetheless play a decisive role. It will be essential to create the right incentives for Member States to invest more effectively and jointly. Faced with these challenges, the EU budget has a central role to play. It must support the catching-up of industrial capabilities, promote strategic autonomy and counter the temptation to renationalise, where Member States, having new financial margins at their disposal, would be tempted to favour purely national industrial returns to the detriment of European coherence. Common funding is therefore the main tool for structuring a collective and ambitious response.

[1] **Military spending** refers to total defence expenditure, including personnel costs, operations and maintenance, pensions, and day-to-day running costs of the armed forces.
Defence investment is a subset of military spending and refers specifically to expenditure on equipment procurement, research and development, infrastructure, and capability development with long-term strategic value.

Ambitions and challenges of common funding: spending "more, better and together"

The guiding principle underpinning European defence funding is now clearly established and shared: it is about helping Member States to "spend more, better and together"[2]. The objective is not to create a European army or an integrated defence structure – at least in the short or medium term - but to use the EU budget as a leverage instrument to make national investments more effective, coherent and synergistic. In the current financial framework, EU defence spending remains far below the scale of national defence budgets and therefore cannot, in practice, replace them. EU funds should primarily serve to pool, coordinate and steer rapidly increasing national efforts. However, as the scale of EU-level funding increases — as illustrated by the Commission's proposal to mobilise up to EUR 131 billion — EU spending could progressively move beyond a purely incentive-based role and begin to substitute for part of national investment. Such a shift would not reduce overall effort, but rather enhance efficiency, by allowing common resources to address shared capability gaps more effectively than fragmented national spending.

European instruments can and must act as incentives to achieve common strategic objectives, such as by dedicating 20% of military spending to investment and progressively sourcing a greater share of defence equipment from European companies, notably through cooperative European programmes. EU funding should be directed towards collaborative initiatives – industrial cooperation, joint Research & Development (R&D) and jointly agreed actions such as joint procurement – thereby reducing the fragmentation of demand and of the European market for defence equipment. This will have positive effects on costs, interoperability and industry consolidation.

Programmes financed or co-financed through the common budget impose rules for cooperation between Member States and require companies to form partnerships. They therefore constitute powerful levers to encourage cooperation and cost-sharing. This section examines the strategic objectives and the added European value that may emerge from pooling financial resources:

- **Reducing fragmentation**: Common funding, through its cooperation conditions, encourages joint procurement. This makes it possible to consolidate demand, achieve significant economies of scale, and guarantee the interoperability of equipment between European armies, thereby reducing the duplication and additional costs inherent in a purely national approach.
- **Strengthening the competitiveness of the European Defence Technological and Industrial Base** (EDTIB): Targeted investments support the reindustrialisation of the continent, innovation in cutting-edge technologies (including dual-use), and the ramping up of production. The EU budget acts as an "industrial multiplier", creating value, skilled jobs and strengthening the Union's technological sovereignty.
- **Filling critical capability gaps**: The EU budget makes it possible to replenish stocks depleted by support for Ukraine and, above all, to finance the development of strategic capabilities (such as space constellations or complex air defence systems) the costs of which exceed the means of a single Member State, thereby strengthening collective security.
- **Directing national spending**: By requiring cooperation and co-financing, EU instruments act as a powerful lever to encourage Member States to allocate their growing national budgets to collaborative projects. In this way, they help to align national priorities with common strategic objectives, reinforcing the overall coherence of the European defence effort.

[2] European Defence Industrial Strategy (EDIS) - https://defence-industry-space.ec.europa.eu/edis-joint-communication_en

The MFF remains the only instrument capable of providing long-term visibility over a seven-year horizon, which is essential for defence investment cycles that are structurally incompatible with annual budgetary decisions. In this context, the proposed European Competitiveness Fund (ECF) is intended to provide a more integrated and predictable framework for supporting strategic industrial and technological investments, including in defence. By embedding defence-related priorities within a multiannual competitiveness instrument, the ECF could in principle enable strategic planning, long-term contracting and de-risking of industrial investments. However, the extent to which it can effectively fulfil this role will depend directly on the scale, structure and governance of the resources allocated. It is therefore crucial to assess the Commission's proposal for defence and the ECF considering the lessons learned from the current MFF— notably regarding fragmentation, insufficient critical mass and limited predictability for industry.

Towards a coherent EU defence investment framework.

The proposed EUR 131 billion envelope for defence, security and space under the 2028-2034 MFF, channelled notably through the ECF, represents a major change compared to the MFF 2021-2027 framework. While substantial, this amount must be put into perspective against Member States' national defence spending, which reached EUR 343 billion in 2024 (EDA data). The real impact of the EU budget therefore lies less in its absolute volume than in its leverage and structuring effect. Under the current MFF, EU defence funding has primarily operated through incentive-based instruments, with an average ratio of EUR 1 of EU funding mobilising around EUR 4 of national funding for collaborative projects. The Commission's ECF proposal builds on this logic but also signals an ambition to move beyond purely incentive-based mechanisms towards a more integrated European defence investment framework.

Experience from the 2021-2027 MFF provides important lessons that are only partially reflected in the current proposal.

- First, the European Defence Fund (EDF) has demonstrated its effectiveness in stimulating cooperation in defence R&D, by imposing strict eligibility conditions requiring multinational industrial consortia (at least three companies from three different countries). It has contributed to decompartmentalising the European defence industrial base. However, the persistent weakness lies 'downstream': insufficient financial bridges exist to transform R&D outputs into industrial programmes and deployable military capabilities. While the ECF could, in principle, help address this gap, clearer articulation with procurement-oriented instruments remains necessary.

- Second, emergency instruments established in response to the Ukrainian crisis, such as the Act in Support of Ammunition Production (ASAP) or the European Defence Industry Reinforcement through common Procurement Act (EDIRPA), have proven the relevance of EU-level action to support the ramp-up of industrial production —particularly for ammunition— and to encourage joint procurement. Their inclusion and consolidation within the European Defence Industry Programme (EDIP), proposed in March 2024, and signed into law on 16 December 2025, reflects a lesson learned by the Commission. However, the challenge now is to move from crisis-driven tools to permanent mechanisms that ensure long-term industrial preparedness across a broader range of critical capabilities.

- Third, the ECF introduces new concepts intended to strengthen the European defence ecosystem, including dedicated financing instruments, such as the proposed FAST fund (Fund to Accelerate the Transformation of Defence Supply Chains) to facilitate access to finance for SMEs, which are essential but structurally vulnerable links in defence value chains. In addition, the introduction of European Defence Projects of Common Interest (EDPCI) could provide a framework for structuring large-scale, strategic capability programmes at EU level. The effectiveness of EDPCI will depend on their ability to mobilise sufficient funding, align national demand, and serve as genuine vehicles for joint procurement rather than coordination forums alone.

In this respect, the possibility to associate Ukraine more systematically with EDPCI and joint procurement schemes—already envisaged in EDIP and SAFE—represents both a strategic opportunity and a test case. Integrating Ukraine could strengthen European industrial scale, enhance interoperability, and anchor long-term security cooperation, provided that governance and financing arrangements are clearly defined.

Finally, stronger synergies between defence and space spending are essential. Industrial ecosystems, technologies and strategic objectives largely overlap. The Commission's proposal to place defence and space under a common budget heading within the ECF goes in the right direction, but its success will depend on avoiding internal competition for resources and ensuring genuine cross-fertilisation between programmes.

Overall, while the Commission's proposal under the ECF reflects a clear effort to internalise lessons from the current MFF, important gaps remain. The performance of both existing and newly proposed instruments will ultimately depend on their capacity to concentrate resources on shared strategic priorities, ensure continuity along the full capability development cycle, and move decisively from fragmentation towards a coherent European defence investment framework.

Recommendations: Investment Priorities and Governance Options

A clear consensus is emerging among Member States on the most critical capability shortfalls that require urgent attention. These gaps have been starkly exposed by Ukraine's operational needs, and initially concern short-term priorities. This logic underpins EU-funded initiatives such as EDIP and SAFE, which aim to rapidly scale up production capacity and promote joint procurement.

Looking ahead to the capabilities that the 2028–2034 MFF should finance for European defence, it is essential that priorities be defined collectively, but also transparently and politically, at European level. Existing joint capability planning processes - notably those led by the European Defence Agency (Capability Development Plan and Coordinated Annual Review on Defence), or through existing mechanisms where Member States jointly select work priorities.

While it would be neither realistic nor desirable to define an overly narrow list of eligible capabilities ex ante — which would constrain Member States' freedom to determine their defence priorities — the absence of any common strategic framework at EU level would be equally problematic. Recent experience has shown that appeals to 'national sovereignty' often mask persistent fragmentation, even as Europe faces a clearly identified strategic environment in which Russia openly treats the EU as an adversary and the reliability of the transatlantic partner can no longer be taken for granted.

Against this strategic background, the next MFF — and the ECF in particular —should be guided by a limited number of clearly articulated European defence priority domains, endorsed politically by the European Parliament and the Council, while retaining sufficient flexibility for adaptation over time. Such an approach would reconcile strategic guidance with operational agility and provide democratic legitimacy to EU-level defence investment. It could for example focus on high-value capability areas, which represent the most critical shortfalls: Ammunition and artillery, Air and missile defence, Unmanned aerial vehicles and anti-drone systems, Cyber defence and electronic warfare, Space capabilities (observation, secure communication), and Military mobility.

To ensure maximum European added value, projects eligible for EU funding should meet at least one of the following criteria:

1. Capabilities whose development and production costs exceed the financial or industrial capacity of any single Member State, such as space constellations or future combat systems.

2. Capabilities that are multinational by design, including secure connectivity, command-and-control (C2) or military mobility infrastructure.

3. Capabilities based on disruptive or dual-use technologies — such as artificial intelligence, quantum technologies, cloud computing or autonomous systems— that can decisively enhance existing platforms and ensure Europe's future technological superiority.

In parallel, support to the EDTIB should be explicitly oriented towards overcoming the most pressing bottleneck facing European defence today:

- ### Supporting the ramp-up of production capacity

The central risk for European defence no longer lies primarily in insufficient R&D funding, but in the ability to rapidly scale up industrial production. While continued support for collaborative R&D – including through an extended European Defence Fund – remains necessary, the EU budget must also deploy dedicated instruments to finance the industrial expansion, modernisation and adaptation to the strategic environment. This effort would simultaneously reinforce Europe's defence readiness, support reindustrialisation, and stimulate innovation, including in dual-use sectors or energy transition.

- ### Ensuring visibility and pooling of demand

Defence companies will not commit to major investments in European production capacity without long-term visibility on demand. Beyond eligibility conditions and "European preference" criteria, the EU budget must therefore play a stronger role in structuring and aggregating demand through joint procurement. By providing predictable demand signals, EU-level action can crowd in private investments, reduce costs for public budgets, and strengthen the resilience of the European defence industrial base.

- ### Aligning Defence Ambitions with Fiscal Realities

One avenue that deserves deeper consideration concerns the articulation between national defence spending commitments within NATO and EU-level instruments. A first step would be to recognise EU defence expenditure as part of the collective budgetary effort that Member States have committed to raise to 3.5% of GDP within NATO by 2030. Such recognition would strengthen incentives for joint investment and better reflect the collective nature of European security.

However, this approach also highlights a structural asymmetry between Member States. While all are expected to increase defence spending significantly, their fiscal space varies widely. In this context, the objective is not simply to replicate existing instruments such as SAFE, but to address a core coordination failure: without a common financing mechanism, highly indebted Member States risk being marginalised from collective capability development, reinforcing fragmentation rather than reducing it.

SAFE represents an important first step by providing preferential borrowing conditions at EU level, but it remains based on national borrowing. If fiscal constraints are taken seriously — even when defence spending is partially exempted from fiscal rules — increasing national debt, albeit at better rates, does not fully resolve the problem. It merely redistributes borrowing costs, without creating a genuinely collective investment capacity.

This is why a European defence loan instrument should be framed not as an alternative to EU budgetary action, but as a complement to it. Such an instrument could allow part of the defence effort to be mutualised at European level, reducing the pressure on national balance sheets, ensuring the participation of all Member States in joint programmes, and improving overall efficiency through scale effects and coordinated procurement.

In this perspective, the question is not whether the EU budget can be increased indefinitely — it cannot — but whether limited common borrowing, tightly linked to clearly identified European priorities and joint procurement, can deliver greater security per euro spent than a purely national, debt-driven approach.

Conclusion

The 2028-2034 MFF offers a historic opportunity to provide the EU with a genuine defence industrial and technological base - an essential condition for achieving strategic autonomy and ensuring the security of Europe and its citizens. The Commission's ambitious proposal provides a solid foundation for turning this vision into reality. However, the challenge is not merely financial: it is above all Europe’s ability to demonstrate strategic coherence and political will, in order to overcome national logics and investing collectively together in an intelligent way.

The EU now has an unprecedented alignment between strategic needs, industrial maturity and political will. Seizing this window of opportunity requires ambitious collective choices and the determination to build, at last, a credible European defence framework.

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