BLOG POST

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What rules should govern the future European defence budget?

The European Union has entered the critical phase of negotiations on its next seven-year budget, the Multiannual Financial Framework (MFF), which will cover the period 2028–2034. The President of the European Council, Antonio Costa, is touring the capitals to build the foundations for a consensus that would enable an agreement to be reached before the end of the year under the Irish Presidency. In this major round of negotiations, there is one area that is hardly a subject of debate amongst Member States: defence. A relatively recent addition to the EU's budgetary landscape, this priority is now firmly established and, given the geopolitical context, no one – not even in the so-called 'frugal' countries – disputes the prospect of a substantial increase in the funds allocated to it.

More than the amount itself, it is the rules and procedures governing the allocation of these funds that are the subject of debate. They will partly determine the benefits that the defence industry will derive from this future EU budget and the ultimate impact it will have on the European Union's rearmament policy.

I • A significant issue

The Commission's initial proposal, dating from the summer of 2025, places defence funding within a 'European Competitiveness Fund' (ECF) as part of a €125 billion budget that also covers space (for the seven years of the MFF). It is likely that this amount will be adjusted as part of the overall negotiations, **but it will undoubtedly represent a very significant increase compared with that for the 2020–2027 period (approximately €25 billion, of which €10 billion was for defence and €15 billion for space)[1]** .

It is also known that, building on the experience of the current cycle and the programmes adopted as a matter of urgency between 2023 and 2025 (ASAP, EDIRPA and EDIP)[2], this EU defence budget will be deployed in several ways: continuation of the European Defence Fund to finance cooperative research and development, co-financing of critical industrial production investments, and subsidies for joint procurement by Member States. In addition, there will be a growing share of funding allocated to EU space programmes with military applications (observation, navigation and telecommunications)[3].

This European financial support is most welcome. It will complement the increase in national defence budgets to which Member States have committed themselves in line with the ambitious targets agreed within NATO. Whilst it is not intended to fund direct EU procurement of military equipment (which remains the prerogative of Member States), it will remain focused on the defence industry and the investments made in it. To give an idea of the scale involved, the combined annual expenditure of EU Member States in this defence investment sector currently stands at around €150 billion. **The €5 to 10 billion per year that the EU could therefore have at its disposal from 2028 onwards is by no means neglictable, given that it will mainly be used to co-finance national investment expenditure with a significant leverage effect**.

And it is indeed the conditions under which it will be used that will determine the impact and usefulness of this European defence funding. By making multi-state cooperation a non-negotiable criterion for accessing these funds, EU programmes have an intrinsic positive effect. However, for this pooled budget to play its full part in supporting a European defence that is both credible and autonomous, **it is also important that its use be guided by two key principles crucial for developing the EU's defence industrial base: that of European preference and that of opening up defence markets within the EU**.

II • What form should European preference take?

This sensitive issue was the subject of difficult negotiations during the adoption of the EDIP[4], **with the debate pitting those in favour of funding reserved exclusively for European companies and equipment against those who, in the name of urgency and military effectiveness, argued for opening the programme up to third-country players and equipment**.

[1] See blogpost "*The uneasy equation of the future EU defence budget*" Delors Institute, July 2025.
[2] See infographic "*The European Union and the defence industry*" Delors Institute, December 2024.
[3] See blog post "*Space: the virtuous backbone of European defence?*" Delors Institute, November 2025.
[4] European Defence Industry Programme.

A compromise was eventually reached which reserves the majority of funding for European industry whilst allowing for flexibility where circumstances require it (as in the case of Ukraine, whose needs – for example, in the field of air defence – cannot be delayed).

The renewal of the provisions agreed for EDIP under the next MFF and its ECF is not certain at this stage and is currently the subject of discussions in the Council and the European Parliament. The outcome of these discussions will set the rules of the game – for far larger sums – until 2034. **This is a major issue on which the European defence industry is rallying, keen to preserve its privileged access to EU funding.** But in reality, it remains a political choice between those who believe that these funds should primarily be used to strengthen the competitiveness of European industry and reduce the EU's military dependencies, and those who wish to be able to rearm themselves through non-European suppliers by fostering alliances with their countries of origin.

However, this is partly a false debate, insofar as the bulk of the funds allocated to defence investment in Europe will remain under national control, leaving Member States entirely free to procure, if they deem it necessary, equipment developed outside the EU or produced on their own territory by a non-European company. It should also be noted that the lack of competitiveness among European companies (linked in part to the limited size of the national markets to which they have access) on the one hand, and the conditions for the allocation of EU funding (cooperative projects, joint procurement, investments of shared interest, etc.) on the other, quite naturally lead to the view that this EU investment in defence should primarily benefit European players.

III • The opening up of defence markets[5]

[The lessons from Ukraine show that strengthening our defence cannot be achieved simply by proportionally increasing the size of our existing forces and equipment stocks. The emergence of new technologies and new operational methods requires to review planning and make room for players characterised by their ability for innovating and for accelerating development cycles and production rates[6]. The defence funding available to the EU from 2028 onwards must support this transformation and contribute to the emergence of these new capabilities (whilst the continuation of major traditional programmes – whether or not they are collaborative – remains the prerogative of the Member States).

However, in order to be effective, this development needs to be accompanied by an access to the markets of EU Member States for the beneficiaries of European funding. The dissemination of technologies and equipment produced within this collaborative framework is indeed essential both for the competitiveness of their designers and for the interoperability of innovative systems, which is crucial on the battlefield.

[5] See blogpost "*For its defence, Europe needs an armament single market*", Delors Institute, January 2026.
[6] See blogpost "*The digital divide in armaments: an opportunity for Europe?*", Delors Institute, October 2025.

Given that military procurement is, and will remain, in the hands of Member States, it is therefore important that it is conducted in a more open manner within the EU, in contrast to the national preference that all too often guides decision-making. This issue of opening up public defence procurement is currently the subject of lively debate in Brussels, with the Commission having announced its intention to propose a revision of a 2009 Directive dealing with this matter. This debate is directly linked to that on European preference, insofar as the latter has to be exercised within a market free from national barriers.

Whilst it seems certain that a substantial defence budget will be included in the European Union's next budget, the details of how this budget will be used have yet to be confirmed. These will be set out in a comprehensive regulation dedicated to the European Competitiveness Fund, which will form part of the overall agreement on the MFF currently under negotiation. And, here as elsewhere, compromises will have to be found between those Member States that prioritise competition (the German position?...) and those that advocate protectionism at European level (the French position?...).

A balance seems to be emerging around the idea that the lack of competition resulting from a European preference would be offset by the more open competition that would be made possible by the removal of barriers within the single market. As for the sensitive issue of 'third countries' access to the incoming EU programmes for funding the defence industry, it cannot, under these circumstances, be reduced to a financial haggle: it must be addressed in all its dimensions, including that of reciprocal market access and security partnership.

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