NOTRE EUROPE
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European defence

Part 2 : Industries

1 Fragmentation of the European defence market

2022 **€236 billion of defence expenditure among the 27**

55 billion invested in equipment acquisition

23%

The defence budgets of the 27 are not negligible, but the European defence market suffers from fragmentation. In fact, the European defence industry has mainly developed on a national rather than a bilateral or European basis, and the restructuring undertaken in the wake of the Cold War has not led to the Europeanisation of defence companies, with Airbus remaining more the exception than the rule.

Costly duplication of weapons systems in Europe

	EU	US
Tank types :	17	1 (*M1 Abrams*)
Destroyer/frigate models:	29	4
Fighter aircraft models	20	6

Source: European Parliament

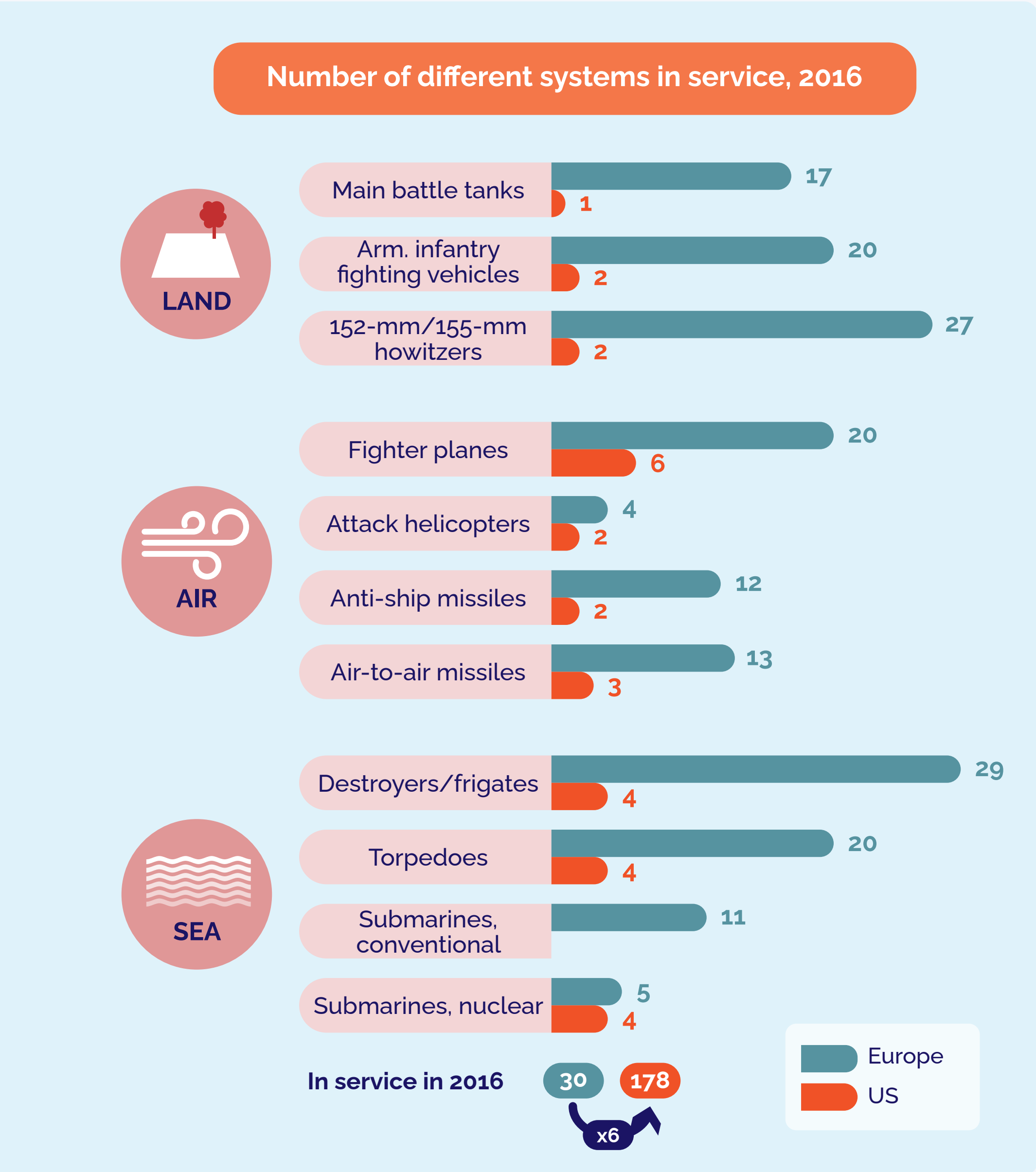
Joint defence procurement (involving at least two States) by European States :

2022 18%

European objective : 35%

Source: CARD report

This duplication of weapons systems has a significant cost, as it limits economies of scale and, ultimately, the production, investment and innovation capacities of the European defence industry.



Source: Munich Security Conference (2017), More European, More Connected and More Capable, Building the European Armed Force of the Future

Similarly, two 6th generation fighter jet programmes exist in Europe...

The **FCAS** (Future Combat Aircraft System)

FR DE ES

BE (observer)

The **Tempest** project

GB IT JP

...while a number of European countries are equipping themselves in the United States and with American combat aircraft.

The complications encountered in the development of the FCAS, as well as in the Franco-German Main Ground Combat System (MGCS) programme, attest to the difficulty of defragmenting the European defence market, even between two partners as close as France and Germany.

A study by the European Parliament (2023) shows that greater cooperation between Europeans in defence matters would make it possible to save (or invest) between €24.5 and €75.5 billion a year.

Many European countries are also making massive off-the-shelf purchases, particularly from the United States; 8 EU countries have bought American F-35 fighter jets: Belgium, the Czech Republic, Denmark, Finland, Germany, Italy, the Netherlands and Poland.

Romania and Greece have also taken steps to acquire the American aircraft. Three other European countries have acquired the F-35: the United Kingdom, Norway and Switzerland.

2 Rising defence budgets and arms purchases

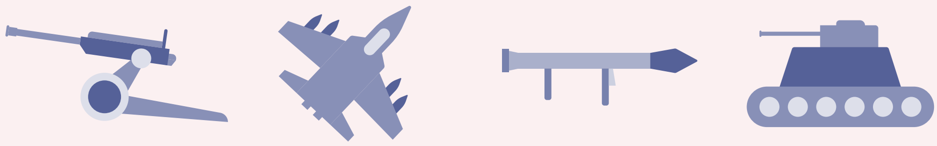
Almost all European defence budgets have seen substantial increases following the war in Ukraine (*see Defence Budgets Infographic*, October 2023). Faced with the urgent need for equipment created by the war in Ukraine, these increases have in part financed the purchase of off-the-shelf equipment, mainly from outside Europe (United States, Korea, Israel, Turkey), to replace weapons transferred to Ukraine.

POLAND

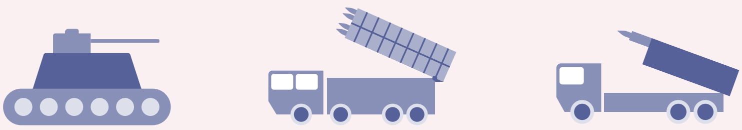
purchases from :

Korea

Howitzers | Combat aircraft | Multiple rocket launchers | K2 tanks

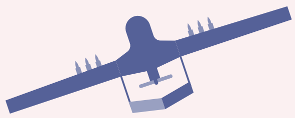


United States



Abrams tanks | Patriot air defence batteries | HIMARS missile launchers

Turkey



Bayraktar TB2 combat drones

GERMANY

purchases from :

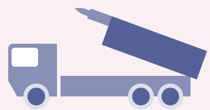
United States and Israel

Air defence systems, American F-35

BALTIC STATES

purchases from :

United States



HIMARS missile launchers

In 2022, US arms sales to NATO member countries almost doubled.

US arms sales to NATO member states

$15.5 billion 2021

$28 billion 2022

Source: Foreign Policy

3 Strengthening the European Defence Technological and Industrial Base (EDTIB)

Since 2017, the 27 have put in place a number of instruments to strengthen the European Defence Technological and Industrial Base (EDTIB).

The European Commission, a new player in European defence

For a long time, the European Commission was not involved in defence policies at European level (this was a matter for the Council, and therefore for the Member States). However, it has been involved in defence debates since 2016 as part of the new defence momentum, in particular through the creation of the European Defence Fund in 2017.

Within the Commission, the Directorate-General for Defence Industries and Space (DG DEFIS) was subsequently established, reporting to the Internal Market Commissioner. Established in 2019, this was the first time that the Commission had a DG specifically dedicated to the defence industries.

Within the EU, the European Commission is today, along with the European Defence Agency (EDA) and the European External Action Service (EEAS), one of the major players in the construction of a European Defence Technological and Industrial Base (EDTIB).

Commission européenne

EUROPEAN DEFENCE AGENCY

European Union EXTERNAL ACTION

EU instruments designed to promote the collective development of capabilities or the supply of arms to Ukraine :

FEDef
European Defence Fund (2017)
- EU budget

Finances the research and development of collective industrial programmes in the defence sector (at least three companies from three European countries are required to benefit from the Fund)

2021-2027 — **€8 billion** over the financial cycle

2022 — Financing of **41 projects** for a total of **€832 million**

2023 — Financing of **34 projects** worth **€1.2 billion**, including

- €154.5 million for naval combat
- €125 million for space
- €123 million for missile defence

PESCO
Permanent structured cooperation (2017) (includes 26 Member States)

Intergovernmental cooperation projects to strengthen the EDTIB, coordinated by the European Defence Agency (EDA) and the European External Action Service.

Defines 20 “binding commitments” designed to encourage Europeans to become more involved in collective defence efforts

Establishes capability development projects (68 by 2023) involving at least two countries (land, sea and air systems, cyber defence, space, training, etc.).

Examples of PESCO projects:

Military mobility: aims to facilitate the movement of forces and military equipment within the EU

Next Generation Small RPAS (NGSR): advanced unmanned aerial system (UAS) prototype

European Medical Command

Strategic Air Transport for Outsized Cargo (SATOC): aims to develop capacity in the field of strategic air transport

Essential Elements of European Escort (4E): essential elements of future surface ships

ASAP
Act in Support of Ammunition Production (2023) - EU budget

Financing the ramp-up of European ammunition and missile production capacity

€500 million
until
30/06/2025

EDIRPA
European Defence Industry Reinforcement through common Procurement Act (2023) - EU Budget

Finances joint arms acquisitions

€300 million
until
END 2025

During 2023, the European Defence Agency (EDA) signed eight contracts for the joint procurement of ammunition. These framework contracts are part of a three-part plan adopted by the EU in March 2023 to promote the supply of ammunition to Ukraine.

EDIP / EDIS

These different initiatives should lead to the establishment of a European Defence Investment Programme (EDIP), which will facilitate joint development and procurement projects at EU level.

All these instruments are to be consolidated in a European Defence Industrial Strategy (EDIS), to be published in 2024.

4 European defence companies

Ranking of European companies among the 100 largest defence companies in the world

Rank	Company	Country	Arms sales as a proportion of total sales (2021)
11	LEONARDO	Italy	83%
15	AIRBUS	Trans-European	18%
16	THALES	France	51%
24	SAFRAN	France	28%
27	MBDA MISSILE SYSTEMS	Trans-European	99%
29	NAVAL GROUP	France	99%
31	RHEINMETALL	Germany	66%
34	SAAB	Sweden	90%
44	KNDS	Trans-European	95%
46	FINCANTIERI	Italy	36%
55	thyssenkrupp	Germany	6%
69	HENSOLDT	Germany	92%
76	PGZ POLSKA GRUPA ZBROJENIOWA	Poland	90%
91	Navantia	Spain	70%
99	DIEHL	Germany	23%

Source: SIPRI, 2022

Defence companies in Europe remain small compared with their American and Chinese competitors.

Company	Rank		
LEONARDO	11e	"Defence" turnover	$12.8 billion 2022
LOCKHEED MARTIN	1st	"Defence" turnover	$63.3 billion 2022

Source: SIPRI rankings or Defense News

Number of national companies in the Top 10 / Top 50 / Top 100 (2023)

Nationality	United States	China	United Kingdom	Italy	France	Germany	Israel	Other EU countries
Number of companies in the top 10	6	3	1	0	0	0	0	0
Number of companies in the top 50	25	3	4	2	5	2	3	1 (Sweden)
Number of companies in the top 100	53	3	5	2	5	5	3	5 (Sweden, Spain, Finland, Ireland and Luxemburg)

Source: Defense News

Industrial projects led by at least two European countries

A400M tactical and strategic transport aircraft

FR DE BE ES TR GB

Tiger helicopter

FR DE ES

Future Air Combat System (FCAS)

FR DE BE (observer) ES

MALE RPAS drone (Medium Altitude Long Endurance Remotely Piloted Aircraft System)

FR DE ES IT

Boxer multi-role armoured vehicle

DE NL LT

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