



Arsenal Europe

Financing Military Capabilities for Ukraine and EU Member States

EUROPE IN
THE WORLD

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Executive Summary

At a time when wars increasingly involve industrial mobilisation, the European Union should fully cultivate and develop its role as coordinator of European defence capability efforts through its industrial and financial instruments. In other words, it should become 'Arsenal Europe'.

While important steps have already been taken by the European Commission and within the framework of the European Peace Facility, this brief proposes two reforms aimed at strengthening synergies between the armament of Ukraine and the member states.

→ **Recommendation 1:** Ukraine and its defence industry should rapidly be allowed to participate in the Commission's defence industrial policies as part of Ukraine's gradual accession to the EU.

→ **Recommendation 2:** The European Peace Facility should be able to purchase military equipment not only for partner states but also for the armies of member states.

By using existing instruments, these two reforms could enable the Union to make its support for Ukraine the driving force behind the progressive formation of a European defence budget.

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• Introduction

From Ukraine to the Middle East, the Caucasus to the Sahel, Europe is more than ever encircled by wars. In this threatening environment, no positive vision for the future of the European Union (EU) will be achievable without meeting a crucial prerequisite: laying the foundations for credible military power. While the completion of the internal market has long been the central project of European integration, the strengthening of European military capabilities has now become one of the Union's major missions. Market Europe must become Arsenal Europe.

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The Russo-Ukrainian War has made the role of the EU in the area of defence clearer. Before 2022, the division of labour between the EU and NATO seemed to be largely geographic: whereas NATO was responsible for the defence of Europe, the EU was more specialised in overseas crisis management missions, mainly in Africa. However, Europeans' and Allies' responses to Russia's full-scale invasion of Ukraine have highlighted a new distribution of roles. Both organisations now clearly focus on the defence of Europe but through different functions. NATO is still the main actor in terms of the Allies' operational preparation to defend the Eastern flank. Implementation of the New Force Model agreed in Madrid in June 2022, which sets the objective that 100,000 allied troops should be available to defend the Eastern border against Russia at 10 days, and 300,000 at 30 days, is currently the Alliance's main mission. As for the EU, the Russo-Ukrainian War and the multiplication of coups in Africa have clearly reoriented it towards the priority of defending Europe against Russia but through its own added value. In comparison with NATO, the EU's advantage lies in its budgetary instruments and industrial policies. The use of the European Peace Facility (EPF) to support weapons deliveries to the Ukrainian armed forces, the launch of several defence industrial initiatives seeking to support the joint procurement of military equipment (European Defence Industry Reinforcement through common Procurement Act [EDIRPA]), and the European industrial production capacity

(Act in Support of Ammunition Production [ASAP]) bear witness to the EU's increasing focus on the defence capability-building function.

I • Industrial Mobilisation

This capability-focused strategic role of the EU, already announced by the European Defence Fund (EDF) launched in 2017, but which has become increasingly central since 2022, is what I call 'Arsenal Europe'. I argue that this function should be fully assumed and cultivated for several reasons.

- Warfare increasingly involves industrial and technological mobilisation. While asymmetric conflicts largely occupied Western armies after the end of the Cold War, the Russo-Ukrainian War marked the return of major wars between large and modern armed forces. Such wars cannot be fought effectively with only the capabilities available on day one; instead, they require the ability to replace and reinforce available capabilities throughout a potentially long conflict marked by massive equipment losses. From a military point of view, the kind of high-intensity warfare observed in Ukraine is largely a battle of attrition, with few decisive breakthroughs. Therefore, the capability front – that is, belligerents' relative ability to systematically refurbish their arsenal over an extended period of time – is at least as crucial as the military front itself.
- Support for Ukraine has become an industrial issue. Although in the early times of the war, the allies prioritised donating weapons directly from their armies' existing stocks, these stocks are now too low for this approach to continue for long. Military support for Ukraine will increasingly come through the production and procurement of new equipment. This trend is illustrated not only by the EU plan adopted in March 2023 to jointly procure ammunitions for Ukraine but also, more recently, by Ukraine's prioritization of the strengthening of its own domestic production. On the occasion of the first Defence Industries Forum organised in Kyiv, President Zelensky declared, 'The best thing

for us is to be able to produce air defence and other advanced weapons. This is the only way to guarantee Ukraine's security¹. War has become a battle of production.

- The Russo-Ukrainian War has also accelerated European states' rearmament efforts, as illustrated by Germany's €100 billion special defence fund, Poland's massive purchase of military equipment and increase of its defence budget up to 4% of its GDP, and France's plan to double its defence budget in 2030 compared with 2017². However, these efforts lack coordination and risk to increase the fragmentation of the European defence market and perpetuate model duplication among European armed forces³. Not only does this fragmentation generate higher production costs and limit interoperability among European armies, but the experience of weapon deliveries to Ukraine has also demonstrated the crucial importance of being able to form coalitions of donors providing the same model, as in the cases of Leopard battle tanks or F-16 fighter jets. The fragmentation of defence spending also favours short-term off-the-shelf acquisitions and contributes to a lack of 'longer-term clarity' for the European defence industry, impairing its ability to invest in and switch to a wartime-economy mode⁴. Thus, more European-level coordination of investments and harmonisation of strategic objectives are needed.
- Finally, the fears that have long existed about the ability and willingness of the US to maintain a high level of military support for Ukraine are beginning to materialise.

The fact that aid for Ukraine was dropped in the temporary budget deal voted by Congress on 30 September 2023 seems to herald increasing difficulties in a context where a large part of the Republican basis is turning its back on Europe⁵. Beyond party politics, many analysts also consider that the US' clear prioritization of its power competition against China will sooner or later encourage it to refocus its attention and resources towards Taiwan and East Asia, potentially at the expense of Ukraine and Europe⁶. Israel's war against Hamas is also a reminder that the US needs to preserve its global room for manoeuvre⁷.

II • 'Like We Did with the Vaccines'

How has the EU addressed these challenges so far? As soon as the 11 March 2022 Versailles Summit, EU leaders agreed to stimulate 'collaborative investments in joint projects and joint procurement of defence capabilities'⁸. In response, the Commission proposed EDIRPA, with a fund of €300 million, to encourage the joint procurement of military equipment from the EU industry by consortia of at least three member states. In February 2023, while EDIRPA was still under negotiation, Estonian Prime Minister Kaja Kallas relaunched the debate by focusing on the joint procurement of weapons for Ukraine:

We should give a clear signal to the European defence industry to produce more. I was thinking that maybe we could use a similar mechanism like we did with the vaccines.

- 1 Ukrainian Presidency, 'The best thing for us is to be capable of producing advanced weapons to guarantee Ukraine's security, and we will do so - address by the President', 25 September 2023.
- 2 Thierry Tardy, "Face à la menace russe, quels budgets pour quelle défense?", *Décryptage*, Paris: Institut Jacques Delors, juin 2023.
- 3 Jean Belin, Renaud Bellais, Daniel Fiott, Alessandro Marrone, Sylvie Matelly, Jean-Pierre Maulny, Fédérico Santopinto, Gaspard Schnitzler, Trevor Taylor and Dick Zandee, 'Collective defence investment: Europe must do more and at a faster pace', *EURACTIV*, 7 November 2022.
- 4 Laura Kayali, Lili Bayer and Joshua Posaner, 'Europe's military buildup: More talk than action', *Politico Europe*, 14 June 2023.
- 5 Jack Detsch and Robbie Gramer, 'U.S. Budget Deal Has Europe Questioning American Resolve on Ukraine', *Foreign Policy*, 3 October 2023.
- 6 Camille Brugier and Pierre Haroche, '2027: The Year of European Strategic Autonomy', Groupe d'études géopolitiques, 10 April 2023.
- 7 Lara Jakes and Eric Schmitt, 'Three Weapons That Israel and Ukraine Both Need From the U.S.', *The New York Times*, 22 October 2023.
- 8 The Versailles Declaration, 11 March 2022.

European countries will provide funds, the European Commission will procure, and then it will be sent directly to Ukraine⁹.

This suggestion led to the March 2023 three-track plan, which involves, in particular, the financing of jointly procured ammunitions for Ukraine by the EPF. On 2 October 2023, the European Defence Agency (EDA) announced that it had negotiated with the European defence industry a joint procurement scheme for 155 mm ammunitions on behalf of seven member states.

These two ways of encouraging joint arms procurement, via the Commission's industrial policy and via the EPF's support for Ukraine, could be financially reinforced in the coming months. First, commissioner Breton is expected to propose a longer-term European Defence Investment Programme to support joint procurement from the EU industry. Second, High Representative Borrell has already proposed to create within the EPF a specific fund allocated to Ukraine with up to €20 billion for four years; part of this funding could be used to expand the logic of the ammunition plan by supporting the joint acquisition of other kinds of military equipment for Ukraine, such as vehicles¹⁰.

The division of the EU's defence capability investments into two strands – the EU's industrial policy, led by DG DEFIS (Defence Industry and Space) of the Commission, and the EU's military policy through the EPF, coordinated by the External Action Service (EEAS) – is inevitable. Since Article 41.2 of the Treaty on EU bans the use of the EU budget for military purposes, the Commission has limited its role to supporting the industry, whereas the direct acquisition of military equipment can only be covered by an intergovernmental instrument, such as the EPF. However, this emerging architecture presents several gaps and inconsistencies that hamper the full development of Arsenal Europe.

III • Supporting Ukraine's Defence Industry

The Commission's defence industrial policy seeks to facilitate transnational cooperation and the integration of the European defence market. However, these instruments exclude Ukraine and the Ukrainian industry. This is problematic because, as many Western states no longer have available stocks to deliver military equipment to Ukraine, industrial cooperation is becoming a key alternative. As one French official put it, 'We have reached a point where we must pivot. Industrial partnership should become the norm, while transfers should be the exception'¹¹. Making Ukraine and the Ukrainian industry eligible to EU defence industrial instruments, particularly those seeking to strengthen defence industrial production and facilitate joint procurement, would thus constitute a welcome complement upstream of the military support funded by the EPF and a key EU contribution to the security assurance policy launched by the G7 in Vilnius in July 2023¹².

Developing partnerships between the Ukrainian and EU defence industries could also present unique opportunities for the development of the EU's Defence Technological and Industrial Base (EDTIB). Since the beginning of the full-scale invasion, Ukraine has demonstrated remarkable qualities of innovation, particularly in terms of air and naval drones and missiles. Not only are these innovations being directly tested and adjusted in real combat, but there is also an intense daily race for innovation against the Russians, particularly in the areas of drone jamming and artificial intelligence software. Ukraine is already a 'super lab of invention'¹³ and could become the EDTIB's primary catalyst for emerging and disruptive technologies.

⁹ Kaja Kallas, 9 February 2023.

¹⁰ Marie Dumoulin, Lykke Friis, Gustav Gressel and Leo Litra, 'Sustain and prosper: How Europeans can support Ukraine', *ECFR Policy Brief*, 11 October 2023.

¹¹ Quoted in Elise Vincent, 'French arms manufacturers seek to establish a status in Ukraine', *Le Monde*, 30 September 2023.

¹² Speaking points of the President of the European Council at the G7 Security Assurance event in Vilnius, 11 July 2023.

¹³ John Hudson and Kostiantyn Khudov, 'The war in Ukraine is spurring a revolution in drone warfare using AI', *The Washington Post*, 26 July 2023.

Ukraine's integration into EU defence policy will be even more beneficial, given the Ukrainian government's commitment to the objective of 'strategic autonomy'. This commitment is currently being made at the national level, with support for arms production in Ukraine, but President Zelenskyy has shown that he is also considering this objective at the European level. On 9 October 2023, he said in an interview for French TV, 'Europe is a large independent market of 600 million people, a continent capable of living autonomously and that should be capable of defending itself autonomously'¹⁴.

Politically, some members of the European Parliament supported opening EDIRPA to candidate countries, such as Ukraine¹⁵. However, EDIRPA's legal basis is Article 173 of the Treaty on the Functioning of the EU (supporting the competitiveness of the European Industry), which means that subsidies must be reserved for purchases from the industry of member and associated states. This obstacle could be overcome by deciding, as part of Ukraine's gradual accession to the EU, to immediately integrate Ukraine into the defence dimension of the internal market. This would enable Ukraine and the Ukrainian defence industry to benefit without delay from the support of EU instruments, whether at the research and development (EDF), production (ASAP), or procurement (EDIRPA) levels, and would thus facilitate the participation of the Ukrainian industry in the development of the EDTIB. On 9 May 1950, Robert Schuman proposed starting European integration with what he called 'one limited but decisive point', that is, coal and steel production; today, starting with the defence sector would be a politically and symbolically powerful first step for Ukraine's accession process.

IV • Buying Weapons for Member States

EDIRPA – and its potential longer-term successors – will be able to support member states' acquisitions from the EU industry, but it follows a bottom-up approach by offering financial incentives to decentralised projects

set up by ad hoc groups of member states. If we refer to the COVID-19 vaccine benchmark put forward by Kaja Kallas, a key factor is the ability to aggregate and coordinate a critical mass of orders to enable the EU to direct industrial production over the coming years towards clearly defined priorities. Only if the EU is able to speak with one voice – at least for certain categories of equipment – will it be able to provide 'long-term clarity' to the defence industry and drive the scaling up and acceleration of production. This requires strategic choices that are not simply a matter of industrial policy but of defence policy.

The second main gap to be filled in the EU defence policy is thus the symmetry of the first. At present, the EU has a strategic instrument for pooling arms purchases, the EPF, but it can only finance weapons for third countries, not for member states. Allowing the financing of member states' capabilities by the EPF would enable the EU to invest collectively in priority equipment and thus have a real driving effect on production.

Covering the needs of both Ukraine and the member states would create positive synergies. First, these needs are often directly linked, as member states seek to replenish stocks of equipment delivered to Ukraine. Second, being able to place orders aggregating the needs of both Ukraine and the member states would increase the volume of joint orders and therefore potential economies of scale and the industry's visibility. Third, it is crucial to plan for the integration of Ukrainian armed forces into the defence of Europe within NATO and the EU. By investing in Ukraine and its European partners, the EPF could pave the way for future interoperability between them.

How can this collective funding of member states' capabilities be arranged? First, member states should define certain priority capabilities on which they agree to invest collectively through the EPF. Second, the EDA, which already has experience in this area, would negotiate contracts with the industry and these orders would be financed by the EPF. Finally, the collectively procured capabilities would be redistributed to the national

¹⁴ Interview with Caroline Roux, *C dans l'air*, 00:46:12, *France 5*, 11 October 2023.

¹⁵ Michael Gahler and Zdzisław Krasnodębski, *Report on EDIRPA*, 28 April 2023.

armies. Overall, each member state should receive equipment in proportion to its financial contribution to the EPF. This logic would be very close to that of the EU Covid-19 vaccine procurement system and would be in line with the objective of establishing a 'joint EU defence programming and procurement function', as set out in the 18 May 2022 joint communication¹⁶.

In June 2022, the European Parliament called for the establishment of an off-budget instrument similar to the EPF to support member states' military capabilities¹⁷. This objective can actually be achieved by the Council within the framework of the EPF, provided that the EPF is further structured to become a real fund. Today, the EPF is still a system of mutual reimbursement that collects funds from member states only when it needs to spend them. This system generates uncertainty, delays, and reluctance from national administrations. For the EPF to become a truly strategic instrument, it would need to be endowed with a multiannual budget, enabling the member states' collective ambition to be secured over the medium term. The key question for national representatives would then no longer be 'Do we want to spend more on the EPF?' but 'What do we want to fund with the EPF budget?'

Initially, this type of collective investment will only deal with standardised and expendable equipment, for which the technical specifications of national armies can more easily converge, and where the mass that is available for the collective defence of Europe is a critical issue. Ammunitions, missiles, and drones are good examples. Interestingly, these categories of equipment also correspond to areas in which the Ukrainian industry is particularly innovative. For example, the joint procurement of drones for member states could benefit greatly from the participation of the Ukrainian industry in the ETDIB.

The strong synergy between the support for EU-Ukrainian defence industrial partnerships and joint investments in member states' capabilities means that these two policies should be closely linked. As such, joint purchases from the EU or Ukrainian industry financed by the EPF could be eligible for a special increased funding rate from the EDIRPA and the European Defence Investment Programme. This mechanism would be comparable to the special bonus from the EDF for which projects developed within the framework of the Permanent Structured Cooperation are eligible.

From a military point of view, drawing on the lessons from the Ukrainian experience, the Pentagon has recently announced the launch of the 'Replicator' programme, aimed at balancing the numerical superiority of the Chinese People's Liberation Army in East Asia through the deployment of air, naval, and land autonomous drones, which are quicker to produce and more 'attributable' than large traditional platforms. As US Deputy Secretary of Defence Kathleen Hicks put it, the goal is to rely more on platforms that are 'small, smart, cheap, and many'¹⁸. Europeans could take inspiration from this initiative and together, in partnership with Ukraine, develop an 'army of drones'¹⁹ to balance Russian military masses and contribute to building the European 'pillar' within NATO.

Finally, in the longer term, the EPF could not only support joint purchases but also manage joint ownership. The EU could thus directly own common military equipment, such as ammunition stocks, logistics depots, strategic airlift capabilities for operations, or military bases in Europe and other strategic regions of the world²⁰.

¹⁶ European Commission and High Representative, [Joint Communication on Defence Investment Gaps Analysis and Way Forward](#), JOIN(2022) 24 final, 18 May 2022, pp. 10-11.

¹⁷ European Parliament, [Recommendation on the EU's Foreign, Security and Defence Policy after the Russian war of aggression against Ukraine \(2022/2039\(INI\)\)](#), 8 June 2022.

¹⁸ Kathleen Hicks, 'Unpacking the Replicator Initiative', 6 September 2023.

¹⁹ Censor.net, "'Army of Drones' hit almost 140 tanks, 270 enemy's artillery systems in month, - Ministry of Digital Transformation', 4 October 2023.

²⁰ Pierre Haroche, Ronja Kempin and Marcin Terlikowski, 'Euro-Bases and beyond: tackling Europe's East-South dilemma', IRSEM-PISM-SWP Joint Policy Paper, 25 November 2019.

• Conclusion

This policy brief makes two recommendations. First, opening the EU's defence industrial policy to Ukraine; second, allowing the EPF to purchase military equipment for member states. Of course, these reforms would need to be accompanied by substantial financial investments. However, they would also enable these investments to be better structured and more profitable by generating synergies between Ukraine and the current member states and by making the most of the advantages of joint procurement.

These two reforms could eventually enable the Union to make its support for Ukraine the driving force behind the progressive formation of a European defence budget.

The EU can play a key role in the decisive defence industrial battle to enable Europe, including Ukraine, to collectively outproduce Russia. Eventually, the EU could emerge stronger from this experience by fully embracing this new capability-building function, in other words, by becoming 'Arsenal Europe'.

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