

Policy Brief

Turbo-charging the EU's defence industry and security posture

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#EDIS

#SingleMarket

#DefenceReadiness

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The first-ever European Defence Industrial Strategy and its financial leg, the European Defence Industrial Programme, saw the light of day in March 2024. The strategy seeks to ameliorate deficiencies in EU defence readiness identified in light of the Russo-Ukrainian war. It offers an ambitious agenda and tailor-made incentives designed to encourage EU member states to invest more, better, together, and European. The Jacques Delors Institute's Associate Research Fellow Thierry Tardy and the Jacques Delors Centre's Security Policy Fellow Sascha Ostanina argue that the strategy is a good start to motivate European countries for more action in the defence sector. However, as long as the EU fails to take on a larger defence mandate via treaty change, the strategy success will hinge upon whether the member states, and their respective industrial defence sectors, will be willing to step up to the plate.

The first-ever [European Defence Industrial Strategy](#) (EDIS) saw the light of day in March 2024 in the hands of the EU's Internal Market Commissioner Thierry Breton and the High Representative for Foreign Affairs and Security Policy Josep Borrell. The EDIS enshrines a '[long-term vision](#)' to step up EU defence readiness by encouraging greater cooperation of European defence industries with administrative, financial, industrial, export control, and political measures. The strategy came with a financial leg, the [European Defence Industrial Programme](#) (EDIP). This EDIP, if financed, will turn EDIS into an action plan under the current EU budget, the 2021-2027 Multi-Annual Financial Framework (MFF).

With these two documents, the EU is encouraging greater European defence cooperation via two separate tracks: between member states by stimulating their joint funding and acquisition of arms and equipment, and between defence companies by incentivising them to develop new capabilities jointly and improve their crisis resilience. If successful, EDIS

would facilitate the emergence of a European Defence Technological and Industrial Base (EDTIB), thereby supporting the Union's quest for defence readiness.

EDIS seeks to ameliorate deficiencies in EU defence readiness identified in light of the Russo-Ukrainian war. It offers an ambitious agenda designed to incentivise EU member states to invest more, better, together, and European. At the same time, it remains to be seen if EDIS measures win endorsement from member states. In the past, similar EU efforts in area have suffered from a wide gap between ambition and implementation, as well as between institutional proposals and member state willingness to execute them. If the goal is more European action in the defence sector, EDIS is a good start. However, as long as the EU fails to take on a larger defence mandate via treaty change, EDIS success will hinge upon whether the member states, and their respective industrial defence sectors, will be willing to step up to the plate.

Bye, National Procurement Policy

The EU defence industry has traditionally remained a realm where national, as opposed to European, procurement policy holds sway. Member states have preferred to [exempt procurement of military equipment](#) from EU public procurement rules, made possible by [Article 346](#) of the Treaty on the Functioning of the European Union (TFEU). This has led to a highly fragmented market with 27 domestic defence industries functioning separately. In addition, the EU defence sectors face competition from within neighbouring Norway and external inflows from [the US, the UK, Russia, South Korea](#), and other 'off-the-shelf' suppliers.

The reasons for a European strategy on the defence industry

The benefits of cross-European defence cooperation came to light in the late 1990s. As the EU commenced drawing up its Common Security and Defence Policy (CSDP), it also identified the need for developing joint defence capabilities, as individual member states could not shoulder alone [a growing gap](#) between policy wants and military needs. The treaty-based Permanent Structured Cooperation (PESCO) and then the Commission-financed European Defence Fund (EDF) have been key pillars of the EU's integration efforts. EDIS comes as the next step in facilitating this growth of joint EU defence capabilities.

It pursues three key objectives. **First, the Union attempts to set up an EU defence budget in the form of EDIP to offset national reductions in defence expenditures.** The post-Cold War's decline in defence budgets has led to [the downsizing](#) of Europe's defence-industrial capacity. At the height of the Cold War, European countries spent 3.5% of GDP on defence on average. In 2022, average military spending amounted to [1.6% of GDP](#) or less than half of their Cold War spending.

Reduced military expenditures have commensurately diminished procurement and national defence-industrial capacities, partially due to their high spending on imported equipment. The European Defence Agency (EDA) estimates that, if all NATO's EU member states had spent 2% of their GDP on defence in 2006-2020, they would have allocated [an extra €1.1trn](#) for defence purposes. Out of this sum, 20%, or €220bn, should have been dedicated to defence investment. By way of comparison, EU military support for Ukraine – provided through the EU's European Peace Facility (EPF) and via individual member states – [has amounted to €33bn](#) since February 2022. This is [15%](#) of EU defence under-investment in the last 15 years.

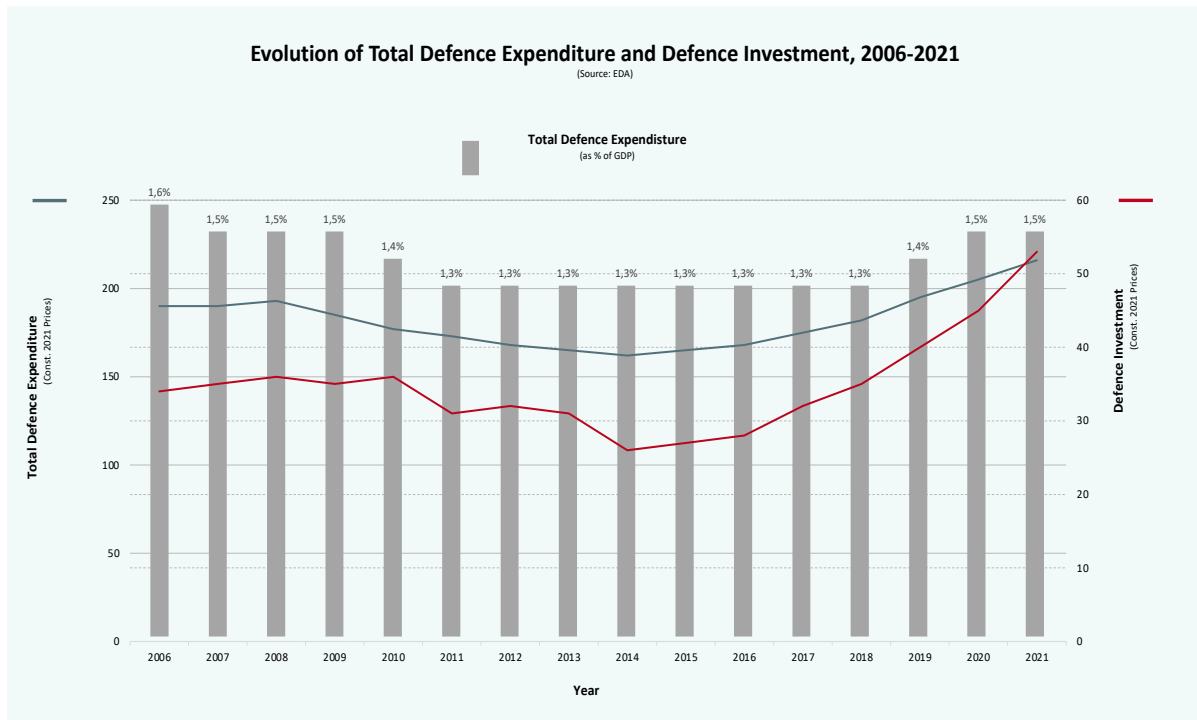


Figure 1: Evolution of Total Defence Expenditure and Defence Investment, 2006-2021. Source: Own design based on [Defence data 2019-2020. Key findings and analysis](#), European Defence Agency

Second, developing joint EU defence capabilities is intended to create economies of scale. Persistent self-reliance of EU member states in defence production has resulted in duplication of weapons platforms. By way of comparison, in 1995, the number of Europe-manufactured platforms was three times higher than corresponding US programmes. By 2017, a differential ratio between European and US weapon systems categories (in use) reached 6:1. By segments, the air segment has a 1.8:1 production duplication ratio between European and US manufacturing lines, land 17 and two production lines, respectively, and maritime the greatest, (5:1) average production duplication ratio. On top of diminishing defence expenditures, this duplication reduces efficiencies in defence spending.

DUPLICATION OF WEAPONS PLATFORMS

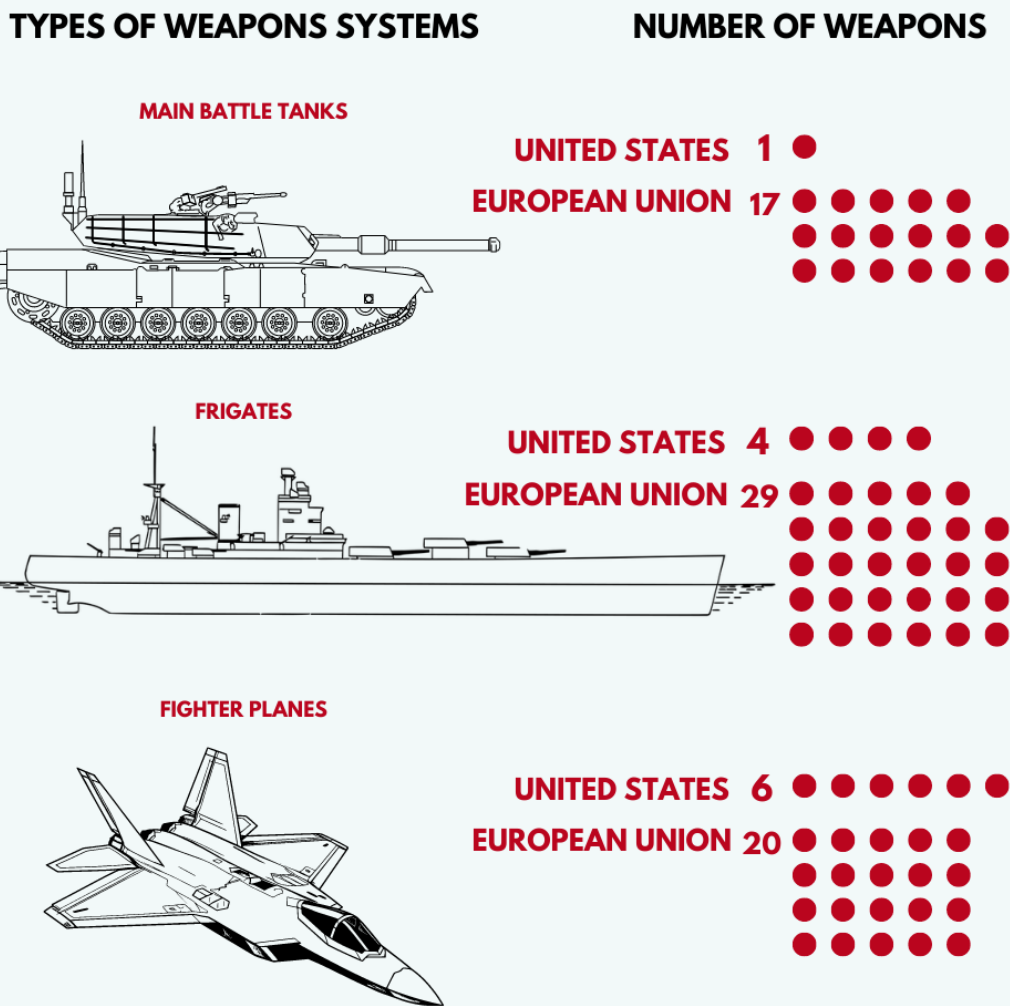


Figure 2: Duplication of weapons platforms. Source: Own design based on [Ten ways that Europe could do more for you](#), European Parliament

In addition, many weapons systems have had their use extended well beyond their original shelf-life due to declining defence budgets. These extensions disincentivised member states to upgrade their defence stocks and, subsequently, sabotaged cross-European efforts to produce joint defence capabilities that could have at least partially standardised military equipment. The [A400M](#) transport aircraft, launched jointly by seven European countries, or the German-French [Main Ground Combat System](#) (MGCS), are cases in point. These projects have suffered from, or continue to experience, substantial delays and operational malfunctions. France and Germany, for instance, have recently again postponed the [replacement of France's Leclerc and Germany's Leopard 2 tanks](#) with the MGCS from 2035-2040 to 2040-2045. Fearing similar malfunctioning cooperation, EU and national public officials are now hesitating to bring up new project ideas for joint European defence efforts.

Third, EDIS aims to enhance the EU's '[strategic autonomy](#)', i.e., the ability to act autonomously, in response to security crises. Russia's full-scale invasion of Ukraine has put EU defence dependencies on the US under the spotlight. One of these is procurement. Between February 2022 and June 2023, [78% of weapons acquisitions](#) by EU countries went to non-European manufacturers, including 63% flowing to the US alone. In real numbers,

EU countries have spent only €21bn of over €100bn on buying weapons from European manufacturers in this peak arms procurement period.

This preference of EU member states to buy ‘[predominately alone and from abroad](#)’, however, is not limited to times of crisis. According to the Stockholm International Peace Research Institute (SIPRI), European countries purchased [around 55% of armaments](#) from the US in 2019-2023, up from 35% in 2014-2018. EU member states, while buying foreign-produced defence goods, simultaneously agreed to spend [35% of their overall defence expenditures](#) on joint purchases. Unsurprisingly, joint defence spending on acquisitions stuck at 18% of the total, despite a 7% increase in the procurement of new equipment in 2021. This continuing European preference to ‘buy American’ harms the Union’s defence industry, without guaranteeing the US’s continuing burden-sharing in European security matters.

An increasingly urgent need for EDIS

The aforementioned shortcomings in EU defence-industrial cooperation [deferred investments](#) in Europe’s arms manufacturing, made achieving [sizeable economies of scale](#) more difficult, and [slowed down technical progress](#). Yet, these shortcomings alone were not the catalyst for the Union to initiate the establishment of a common defence industrial policy.

What was missing? Russia’s full-scale invasion of Ukraine was the key catalyst for the EU to start thinking more strategically about its fragmented defence industries. Russia’s February 2022 multi-axis offensive in Ukraine returned high-intensity conventional warfare to Europe. At the same time, EU military assistance to Ukraine has showcased that European defence industries are incapable of ensuring an adequate military response to such an attack.

The lack of long-term preparation has led to three key insights into the current level of EU defence readiness. **First, European countries appeared unable to promptly assist one another with sufficient reserve arms stocks in the event of an attack.** Two main explanations are at play. First, insufficient armament and ammunition stocks. A pre-invasion NATO requirement envisaged its member states always having [30 days’ worth of ammunition](#) in reserve. At the outset of the Russian invasion, Germany’s Bundeswehr reportedly had ammunition for only [two days of intense fighting](#), the UK [for eight days](#). The second explanation is inadequate transport infrastructure. [EU countries did not upgrade their roads and rail lines](#) to enable, for instance, a 62-tonne Leopard tank to pass through. In Germany, [10% of motorway bridges](#) across the country require renovation. Additionally, the Union lacks a so-called [Military Schengen](#). Transporting military cargo requires special permits, unlike civilian freight carriers which are allowed to roam seamlessly. In 2018, in the framework of the EU’s Military Mobility project, the Union agreed to reduce the process of permit issuing to [five working \(!\) days](#). This objective failed to be met. Consequently, in November 2022, the EU developed an Action Plan on Military Mobility 2.0 that ‘[invites](#)’ the EU member states to ‘[meet the five working days objective](#)’ by 2024 and to ‘[explore the possibility](#)’ of limiting permit issuing procedures for rapid reaction units to three working days. Failing to sufficiently stockpile and promptly transport war reserves across the Union means that European countries cannot rapidly assist one another in the event of an attack. This clause is envisioned in both NATO’s Article 5 and the Treaty on European Union’s [Article 42.7](#).

Second, the EU did not have emergency responses in place to kick-start military production. Production capabilities fit to sustain long-term fighting are necessary if a protracted military conflict is considered likely. A case in point is the USSR’s policy of [keeping its arms industry](#)

running on full during the Cold War. The modern-day European Union did not foresee the return of high-intensity warfare on the European continent. Its security policy framework, the Strategic Compass for Security and Defence (2022), designed in the run-up to Russia’s full-scale invasion of Ukraine, does not mention the risks of a peer-to-peer or near-peer military conflict, let alone a protracted war. Consequently, the EU saw no need to develop emergency responses to such eventualities and the ability of its defence industries to mass-produce war supplies remained stuck on the level of the ‘peace dividends’ time.

These deficiencies in planning forced the EU to design incentives for defence industries, after the Russo-Ukrainian war had already consumed European military stockpiles. Defence manufacturers, busy implementing their long-term contracts with other clients, were not eager to invest in expanding their production lines at their own risk, without signed contracts. The EU, in turn, had limited wiggle room for additional defence spending in the middle of the pre-negotiated 2021-2027 MFF.

By the second half of 2023 or some 18 months after the Russian invasion, the European Commission had developed two emergency responses to help Ukraine: the €500mn Act in Support of Ammunition Production (ASAP) and the €300mn European Defence Industry Reinforcement through common Procurement Act (EDIRPA). As ASAP and EDIRPA came as first attempts to finance joint procurement or ammunition production, these two measures have had a limited impact in addressing Ukraine’s immense battlefield needs. In March 2023, for instance, the EU vowed to supply one million of 155-mm ammunition shells to Ukraine within a year. Failing to fully ramp up production, the EU delivered only half of the promised amount. In 2024, it is estimated that Ukraine needs 200,000 155-mm shells a month (or 2.4m rounds a year) to get the edge over the Russians.

Finally, the EU realised the unreliability of its emergency responses and the need to shift to ‘structural EU defence readiness across all time horizons’. Fostering peacetime defence-industrial cooperation is believed to offset national defence under-investment and reduce the need for punctual emergency responses. The new European Defence Industrial Strategy aims to help the Union achieve defence readiness by turbo-charging its defence-industrial capacity in five years.

An ambitious agenda

By introducing EDIS, the Commission and the High Representative are seeking to reinforce the industrial pillar of EU defence readiness.

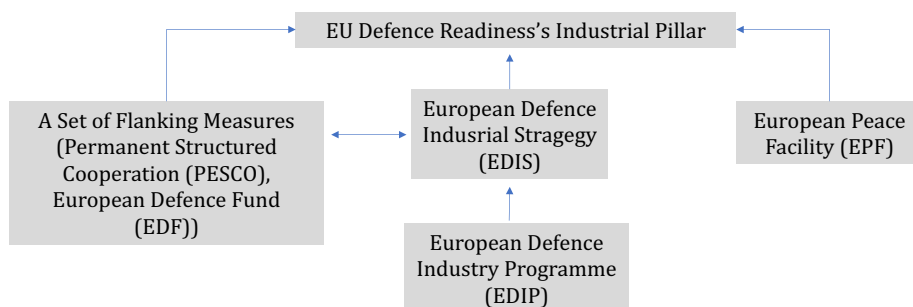


Table 1: The industrial pillar of EU Defence Readiness. Source: Own design based on [European Defence Industrial Strategy](#)

Unlike the Strategic Compass, EDIS puts the risk of high-intensity conventional warfare under the spotlight. The strategy identifies a two-component response to this risk: increased defence spending by member states and a European Defence Technological and Industrial Base (EDTIB) capable of absorbing this increased spending. By merging these two components in pan-EU defence projects, the strategy aims to boost the EDTIB's ability to '[identify, develop and produce the requisite military equipment across the full spectrum, starting from the most urgent needs](#)'. EDIS envisages five core elements, whose implementation must be conducive to these changes and help the Union achieve defence readiness.

Key EDIS benchmarks:

- By 2030, member states shall procure at least 40% of defence equipment in a collaborative manner
- By 2030, the value of intra-EU defence trade shall represent at least 35% of the value of the EU defence market
- By 2030, member states shall procure at least 50% of their defence investments within the EU (60% by 2035)

Pillar I. Leveraging readiness through investment: More, better, together, European

The EDIS first pillar aims to reroute increased national spending on defence from foreign companies to the European defence industry. There are three sets of measures envisioned here:

The EU helps coordinate member states' defence investment plans and efforts. Per EDIS, a Defence Industrial Readiness Board, comprising EU member states, the European Defence Agency, and the European Commission, will oversee and enact the EU's joint programming and procurement function. The Board will also identify and advance European Defence Projects of Common Interest. In addition, a European Defence Industry Group will facilitate a sector-specific government-to-industry dialogue and programme of cooperation.

The EU strengthens cooperation throughout various stages of the capability life cycle. The European Commission will develop a legal framework, the Structure for European Armament Programme (SEAP), with incentives for cooperative defence projects. EDIS also proposes to expand and extend EDIRPA beyond its current due date on December 31, 2025, and to promote existing defence standards and cross-certification of defence capabilities.

Member states reduce acquisitions from non-EU defence industries. A European Military Sales Mechanism, comparable with the [US Foreign Military Sales \(FMS\)](#) programme, will facilitate the availability of Europe-produced defence products. A pilot project, designed to test out this sales mechanism by 2028, envisions [four pillars](#): establish a centralised catalogue of defence products developed by the EDTIB; create 'defence industrial readiness pools' with EU-produced defence products; provide financial support for the purchase of additional quantities of goods from such pools; and introduce a standard regime for defence contracts and framework agreements with EU defence manufacturers.

Pillar II. Security Availability: A responsive EDTIB under any circumstances and time horizon

The second EDIS pillar designs emergency procedures for the EDTIB to swiftly respond to changes in defence procurement. Its key measure proposes an **EU-wide two-layer crisis framework, a Security of Supply regime**, that could be invoked in times of crisis. There are two types of supply crises that could threaten military production in the Union. A lower-level scenario, a ‘crisis state’, envisions shortages of civilian or dual-use components or of raw materials that [‘threaten the timely availability and supply of defence products’](#). In such an event, EDIS allows for prioritising defence over civilian supplies (priority rated orders). In a second, upper level scenario, the EU might resort to unspecified [‘necessary and proportionate’](#) measures to mitigate the effects that a security crisis in or around the Union might cause to its armaments output.

The second pillar also proposes measures to **improve crisis-readiness at other defence production stages**. These measures include maintaining ‘ever-warm’ production lines, allowing to repurpose civilian production lines for military use, incentivising strategic stockpiling of basic components, and facilitating access to funds for SMEs and midcaps plus R&D.

Pillar III. Financing the Union’s ambition for defence industrial readiness

The third EDIS pillar envisions measures to increase EU defence funding. To provide financial backing for the various initiatives of the European Defence Industrial Strategy, the Commission has developed [the European Defence Industrial Programme](#) (EDIP). EDIP is due to allocate **€1.5 billion for investment** [‘in the defence industrial readiness of the EDTIB’](#).

EDIS also urges the creation of [‘an ambitious financial envelope on defence’](#) in the upcoming MFF starting from 2028. How big this should be is not specified. But Internal Market Commissioner Breton, for instance, has proposed [a €100bn fund](#) for boosting EU defence industry production from 2028. Additionally, EDIS suggests **using the windfall profits generated from Russia’s frozen assets** to purchase military equipment for Ukraine and support Ukrainian defence industrial base in the long run.

All these funding mechanisms are still hypothetical and have yet to be given the green light. EDIP, for instance, is a regulation and requires [unanimous approval by the Council and the European Parliament](#) to come into effect (see Appendix I). To fund the Union’s aid programmes for Ukraine with frozen [Russian assets](#), the EU member states will need to agree on the exploitation of these monies for purposes designated in EDIS.

Pillar IV. Mainstreaming a defence readiness culture, including across EU policies

The fourth EDIS pillar aims to level the regulatory environment and foster equal access to finance and workforce for defence projects. The strategy underlines that the existing EU sustainable finance framework, contrary to popular interpretation, does not impede private investment in the defence industry. Moreover, defence projects can already benefit from existing EU financial instruments, implemented via InvestEU and Cohesion Policy Funds. Yet, these measures do not suffice. Hence, EDIS proposes **a new dialogue with banks and investors** to lower barriers for private finance. Specifically, the European Investment Bank (EIB) Group should cease excluding the defence industry from its lending policies. The EIB is reportedly looking into [three different versions](#) of an updated defence-targeting lending policy, that could be approved by a simple majority of the EU member states. Simultaneously, the Commission proposes to **mainstream ‘defence considerations’** in existing EU financial instruments, including those on the green transition, and **attract a younger highly skilled workforce** to the defence sector.

Pillar V. Achieving readiness and resilience through partnerships

The fifth EDIS pillar aims to enhance international defence cooperation. To further tie [the Union's and Ukraine's defence industries and markets](#), **Ukraine will be allowed to participate in EU procurement and industrial support programmes**. Additionally, the Union will seek to **strengthen cooperation with 'like-minded'** third countries, NATO, and other international organisations.

Challenges to the Strategy's implementation

The EU efforts towards incentivising member states to do more and act collectively in the defence industry field have so far been piecemeal and reactive. What EDIS offers is a framework for a more strategic and consolidated policy. It takes stock of Ukraine-triggered developments to push for a paradigm shift that would enable EU member states to develop a genuine EDTIB, so they can then rely on a tangible 'EU defence readiness'.

While EDIS is an important milestone towards achieving such an ambitious objective, a series of obstacles may hinder its implementation.

Defence integration and the State

The establishment of a European DTIB can only emerge from a strong and lasting impulse originated in the EU member states. As in any EU integration process, states are the ultimate enactors of policy decisions they have signed off on. The defence field is particularly interesting, as it comes at the crossroads of intergovernmental and community policies, but also brings the private sector into the picture. **By nature, defence is particularly sensitive for member states, which explains why little inter-state integration has been achieved so far.** In addition, an EDIS-initiated novelty is the role of the European Commission, quasi absent from the defence debate ten years ago, and now its main institutional stakeholder.

Two subsequent issues emerge: first, the degree of member states' buy-in of EDIS and the strategy's implications for them and their defence industries, and second, how much member states endorse the level of 'communautarisation' of defence implicit in EDIS.

By and large, member states subscribe to the EDIS goal that "more needs to be done to fulfil the Union's objectives of increasing defence readiness" and that this requires measures to "strengthen the European defence technological and industrial base (EDTIB), [...] to make it innovative, competitive and resilient." However, national governments still cross swords on how to approach defence within an EU framework and the industrial level can hardly be separated from the political/strategic one. The way the Permanent Structured Cooperation (PESCO) and then the European Defence Fund (EDF) were established over the last six years speaks to **the low-level consensus among member states on European defence integration**. Obstacles arise because of disagreements about the appropriate policy level. First, one approach dictates that national defence is, first and foremost, a matter of national sovereignty relying on home-based capacities which furthermore contribute to the country's economic output. Pooling and sharing with neighbours is hence a tough call. Second, any debate on defence in Europe is immediately situated within the broader transatlantic setting, with national policy being to a large degree determined by the kind of relationship that a state has with the United States and/or NATO.

Traditional atlanticist states would typically be disinclined to rock the transatlantic

industrial boat. However, for a genuine EDTIB to emerge, European states would have to reconsider their current policy preferences, and these may not be the most obvious choices. Even a country like France, that advocates the development of a European defence market, possibly as an alternative to a US-dominated one, is much concerned about the possible impact of the European option upon its own defence industries.

Here lies a major impediment to the emergence of an EDTIB: countries that [already have a strong national DTIB](#) welcome the European prism only insofar as it helps consolidate their own industrial base while others suspect the EU's largest defence manufacturing countries will simply pursue their own agenda under the guise of the European project. **Building up the EDTIB would inevitably create national winners and losers.** No member state is today willing to end up losing out in the name of a higher European interest.

In the end, true champions of European defence industrial integration [are difficult to identify among member states](#), which arguably does not bode well for the implementation of EDIS.

The second issue relates **to the degree of acceptance of the self-proclaimed centrality of the European Commission.** Already during the final stages of completing the Commission plan to ramp up ammunition production via ASAP, a number of member states expressed their wariness vis-à-vis a perceived [“EU executive’s ‘overreach’ on member states’ competencies.”](#) The critique addressed issues related to the degree of intrusiveness of the Commission at the expense of national companies and member states’ prerogatives, such as waivers of licence exports, as well as sharing of sensitive information with the Commission, particularly about any national vulnerabilities. In more general terms, states are observing the attempted power grab of the Commission in defence with a dose of alarm and mistrust.

In this context, EDIS is viewed as [giving the Commission an even more expanded role](#). That will elicit resistance among some EU member states, if not outright opposition. Although being formally put forward within a joint Communication of the European Commission and the High Representative, **EDIS puts the Commission at the centre-stage of all new initiatives:** the Structure for European Armament Programme (SEAP), the European Military Sales Mechanism, the establishment of a catalogue of defence products developed by the EDTIB, the establishment of defence industrial readiness, the creation of a Fund to Accelerate Defence Supply Chain Transformation (FAST), the establishment of a EU Security of Supply regime, and EDIP (see Appendix I). The Commission is to co-chair (with the High Representative) the newly created Defence Industrial Readiness Board and will be sole chair (with the participation of the EEAS and of EDA) in the context of EDIP implementation. **Further, the European Commission is likely to create a position of Defence Commissioner, as well as a defence budget.** It remains to be seen if states sign off on all these measures. If they do, the governance of European defence industrial integration would be transformed.

The evolving role of the Commission will also inevitably result in turf battles between various EU bodies involved in EDIS implementation. Institutional battles around defence-related developments have been fierce within the European Union, where the mounting role of the Commission (particularly with the establishment of the DG DEFIS and the European Defence Fund) has come at the expense of the EEAS and the European Defence Agency (EDA). **The Commission is likely to further increase its pre-eminence thanks to its sheer size and financial resources, moving the EEAS and EDA further to the periphery.** And here again, the creation of a position of Defence Commissioner, especially if supported with a (significant) budget, would further accentuate the institutional gap.

Financing EDIS

Previous European defence efforts have proven that nothing will happen until big money is available. Money has two functions: it enables (costly) programmes to see the light; and it incentivises public and private actors to shift from a logic of competition (and, therefore, fragmentation) to one of collaboration within the European defence market. Past national defence underspending in Europe and the weak financial resources allocated to EU-led defence initiatives (such as the European Defence Fund) would suggest erring on the side of caution when predicting any meaningful financial backing for EDIS.

EDIS proposes various ways to improve defence funding and diversify the financial sources, such as EDIP, lending policies of the EIB, etc. These proposals are sound, and their implementation is undoubtedly necessary for the emergence of a European defence industrial market. Significant defence budget increases have also been observed in almost all European countries over the last two years. Nonetheless, at least two considerations need to be factored in. **First, the tension between short-term financial commitments related to the Russo-Ukrainian war and longer-term budgets will need to be tackled.** The strategy emphasises that there will be no European defence readiness unless European states financially commit to it in the long term. No quick fix will work. Credible European defence readiness can only be [the result of a sustained political, industrial, and financial effort](#). Yet, there are a few doubts on whether states will find and sustain the financial resources required in the defence sector against the backdrop of budgetary difficulties and rising costs of the green transition.

Second, increased defence spending at national level can only materially affect European defence readiness if such a link is built. This is the core idea of EDIS – ‘Europeanising’ defence spending – contained in its subtext by which states must “invest more, better, together, and European”. EDIS translates Europeanisation of defence spending into the benchmarks of procuring at least 40% of defence equipment in a collaborative manner and at least 50% of defence equipment within the EU by 2030. States opting to significantly increase their defence budget, while favouring a strictly national or non-European industrial framework, would be of little help. The ‘invest European’ is likely to be as difficult as the ‘invest more’.

EDIS and the Industry

The EDTIB brings together three categories of actors: member states, European institutions, and the defence industry. In many countries, defence industry groups are partially or fully state-owned. Yet, one should not reduce their role to mere state entities. The defence industry is subject to economic and profitability constraints while operating in a fiercely competitive environment. According to EDIS, the EDTIB generates an annual turnover of approximately EUR 70 billion with large export volumes (more than EUR 28 billion in 2021). It is estimated to [employ around 500,000 people](#) and is spread across a mix of a few dozen large national corporations (like Leonardo, Airbus, MBDA, Thales, Rheinmetall, etc.) and thousands of sub-contractors, including producers of dual-use items. These companies are competing on a relatively narrow market, while being highly dependent on tight national budgets and exports. This is where the fragmentation is the most tangible: relatively small entities can hardly compete with their American competitors. For instance, the largest European defence company – Leonardo – [ranks 11th](#) in the list of world largest defence companies largely dominated by US firms.

For most of these European actors, the flexibility involved in ramping up their production lines because of the Russo-Ukrainian war, as well as the more general shift toward collaborative projects, are genuine challenges. Put bluntly, **the necessity to consolidate the European defence market and build a genuine European defence readiness only speaks to national defence operators insofar as it can be translated into their own (better) economic prospects.** This suggests that the above-mentioned economic argument pertaining to economies of scale is yet to be factored within the defence sector. In fact, the European angle is not a priori attractive to the defence sector and can even be perceived as counterproductive. Most specifically, all European initiatives that tend to put the Commission in a position of collecting/centralising data on the defence sector or to a degree controlling supply chains are looked upon with suspicion. EDIS proposes to establish a high-level European Defence Industry Group. This Group will meet with governments and defence enterprises in sector-specific configurations and will consult with industry to increase consistency between member states' plans and what the EDTIB can deliver. Such a level of consultation and coordination will be essential to EDIS implementation.

For the defence companies involved, the payoff structure of collaborative projects is not a given. At the Franco-German level, the delays in negotiating and developing both the Future Combat Air System (FCAS) and the Main Ground Combat System (MGCS) attest to obstacles that pertain to workshare, leadership, intellectual property, cultural discrepancies, and absent trust. In this context, **three types of levers need to be activated to facilitate the shift from competition to collaboration: state intervention, financial incentives, and regulatory mechanisms.** To a degree, PESCO and the EDF started that process, and EDIS aims to make the payoff structure for the industry even more positive. Through EDIP, EDIS proposes, for instance, to identify 'European defence projects of common interest' that are beyond the capacity of individual states and would, therefore, elicit a collaborative approach. Yet, this market-induced necessity does not naturally lead to forms of European collaborative procurement, as the recent [European Sky Shield Initiative \(ESSI\)](#) has shown.

The strategy beyond the strategy

Finally, EDIS raises the bigger question of the degree of consensus among European states in the defence realm. At stake is the level of autonomy that the EU should aim for, both for itself and vis-à-vis the United States. **EDIS can only move the EU forward, if European states agree on its ultimate objectives.** Two issues have shaped or will shape this debate: the Russo-Ukrainian war and the possible return of Donald Trump to the White House in 2025. Both issues beg the question of how far Europeans want to or are prepared to go in the defence domain, and how much EU defence readiness implies working more with the EU's main ally, the United States, rather than taking one's distance from it. The degree of autonomy, level of protectionism, inclusion of third parties, all depend on what the ultimate strategic objective is. Here some member states will likely want to de-prioritise the European defence market so as to avoid damaging relations with the US defence industrial base. A possible return of Trump to the White House could also fundamentally alter the terms of this conversation, particularly if it leads to the US moving away from Europe and from NATO. The European alternative might then become more attractive, especially to those most exposed to the Russian threat.

In any case, **it would be wrong to assume that a fully-fledged EDTIB could be compatible with the current industrial dependency of Europe on the US.** A more developed European defence sector would inevitably impact the Europe-US relationship, as it would empower Europeans in both industrial and political terms. Such is the objective of EDIS.

Conclusion: the way forward

EDIS is one element of a bigger group of instruments that aim to strengthen the EU's defence capacity. It comes in the context of the Russo-Ukrainian war that has shown both the dangerous nature of the geopolitical environment and the vulnerabilities of Europe's defence apparatus. The main challenge now will be that of long-term implementation, i.e., a broad and lasting convergence of member states and the defence industry on the necessity to act in a more 'European way'. The hypothetical concomitance, as of 2025, of an aggressively expansionist leader in Moscow and an isolationist one in Washington, may constitute a conducive environment for a European defence industrial effort to materialise. Yet in the end, any genuine breakthrough in the defence sector will [have to come from within Europe](#), after a fundamental paradigm shift pertaining to geostrategic, security, economic, and cultural variables, and one that concerns a wide typology of stakeholders. Individual EU member states [are yet to embark](#) on this paradigm shift journey. Hence, it would be to the EU's benefit if the next Commission would be entrusted with such an ambitious mandate by the European Parliament, supported by a committed Council, and with the full involvement of the European defence sector. EDIS already constitutes a good step in that direction.

Appendix I: An EDIP implementation caveat

A few EDIS measures, but especially its third, financing, pillar, depends on EDIP. In its turn, adoption of EDIP is directly linked to the results of the European Parliamentary elections in June 2024. These elections will determine the composition of the European Parliament tasked with negotiating EDIP. Moreover, EDIP's €1.5 billion budget covers only the period until the end of 2027. The next EU long-term budget, the Multi-Annual Financial Framework starting from 2028, will also be negotiated by the newly elected European Parliament.

Table II. When EDIS activity can be implemented
 (Initiatives run by the European Commission are highlighted **in bold**)

	<i>Pillar I. Leveraging readiness through investment: More, better, together, European</i>	<i>Pillar II. Security Availability: A responsive EDTIB under any circumstances and time horizon</i>	<i>Pillar III. Financing the Union's ambition for defence industrial readiness</i>	<i>Pillar IV. Mainstreaming a defence readiness culture, including across EU policies</i>	<i>Pillar V. Achieving readiness and resilience through partnerships</i>
<i>EDIS-envisioned activities based on existing measures</i>	Board-identified European Defence Projects of Common Interest based on existing instruments and initiatives, notably the Capability Development Plan (CDP), the Coordinated Annual Review on Defence (CARD) and the Permanent Structured Cooperation (PESCO)	Innovation support services, such as 'everwarm' calls, through the EU Defence Innovation			Potential strengthening cooperation between the EEAS, EDA, NATO International Staff, NSPA, DIANA, the EDA HEDI and EUDIS
	Promote NATO Standardisation Agreements (STANAGS)				
	Support cross-certification				
<i>EDIS-envisioned activities</i>	A Defence Industrial Readiness Board to perform the EU defence joint programming and procurement function	Measures to rapidly mobilise civilian production lines for defence purposes		A high-level dialogue with banks and investors to facilitate private finance access	Stimulate information exchange and cooperation with Ukraine

	A Board-provided forum to support the coordination and de-confliction of procurement plans and provide strategic guidance	An EU Innovation Office in Kyiv, Ukraine		Consider including or maintaining defence readiness, security and resilience as an explicit strategic objective under future relevant EU programmes	An EU-Ukraine Defence Industry Forum in 2024
	A high-level European Defence Industry Group to facilitate government-to-industry cooperation			Mainstream defence industrial readiness considerations in EU policies	Enhanced staff-to-staff talks between the EU and NATO
				Attractiveness of the defence sector for the workforce	Strengthening mutually beneficial partnerships with strategic partners, international organisations, and like-minded countries
				Support the EDTIB's green transition	
<i>EDIP-envisioned activities based on existing measures</i>	The EDIRPA intervention logic – expanded beyond the most urgent and critical defence products	The ASAP intervention logic – beyond ground-to-grounds ammunition and missiles			
<i>EDIP-envisioned activities</i>	A Defence Industrial Readiness Board to ensure EU-level security of supply and support the EDIP implementation	Building up 'ever-warm' spare industrial capacities	A €1.5bn budget until the end of 2027		Ukraine's participation in EU joint procurement
	Mutual recognition of national certificates	A Fund to Accelerate Defence Supply Chain Transformation (FAST) by facilitating access to debt and/or equity financing			Support industrial ramp-up of Ukrainian defence companies and their cooperation with the EDTIB
	The Structure for European Armament Programme (SEAP) incentivising initiative and managing cooperative defence programmes	Sustained support towards industrialisation through repayable grants			

		An EU Security of Supply Regime			
Longer-term plans pilot-tested by the EDIP	A European Military Sales Mechanism pilot-tested through a four pillar-project: 1) a catalogue of defence products ; 2) financial support to create defence industrial readiness pool ; 3) provisions to ease procurement processes; 4) capacity building measures for procurement agents	Funding stockpiling by industry of basic components pilot tested through a small-scale project			
<i>Measures requiring major third-party adjustments</i>		Use the windfall profits of frozen Russian assets to purchase military equipment for Ukraine and support its defence-industrial base	The EIB Group adapting its lending policy already in 2024 to accommodate the defence industry		
			Starting from the next MFF in 2028: an ambitious financial envelop on defence		

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