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BLOG
— POST

War in Ukraine: a transformational impact on the European defence industry



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In the space of three years, the Russian-Ukrainian conflict has triggered a reawakening of the arms industry in Europe. Significant changes are already taking place within this military-industrial ecosystem. This change is affecting the players in the European Union, but it is being led very actively by Ukraine and its industrialists, who are really operating in a war economy. Both revealing and accelerating this reality, the European Commission has just published the work programme for 2025 of the European Defence Fund (EDF), opening up access to it, for the first time and without restriction, to Ukrainian companies¹.

This trend is set to continue, irreversibly changing some of the parameters governing a sector that has traditionally been protected by its sensitive and sovereign nature. To appreciate the upheaval underway, it is sufficient to take stock at four levels:

1. Changing priorities for the European Defence Technological and Industrial Base (EDTIB)

¹ The European Defence Fund was launched in 2021, before the start of the war.

We can see that **companies active in defence within the EU are reorienting their strategy** to take account of the new situation. Not without difficulty: in addition to the inertia typical of these heavy, cutting-edge industries, there has been procrastination on the part of governments, whose repeated and unanimous declarations of support for Ukraine have been slow to translate into reality, whether in budgetary terms or in setting capability priorities.

Today's industry has to respond to a twofold injunction from its government customers: to produce more and to produce faster. This new line of force does not apply equally to the entire spectrum of arms production. It primarily affects the equipment needed by the Ukrainian army, i.e. ammunition, artillery, missiles, armoured vehicles, drones, etc.² But this reorientation significantly alters the investment policy of the companies concerned, which have **to allocate more resources, both financial and human, to their production facilities.** Given budgetary constraints and the limits of the pool of expertise available for these new tasks, it is in fact the **entire industrial sector, with its supply chain, which is being disrupted and which must adapt.** Mass production, which had previously been considered a lower priority than the technological development of new prototypes, is now becoming more important.

Intended to support Ukraine, this new guideline is already significantly changing the armaments policies of the Member States. Those with a large defence industry are slower to make this change, which requires heavy investment and time. Those with no defence industrial base, on the other hand, have proved to be more agile and quicker to finance licensed production lines or off-the-shelf purchases.

While it is too early to draw any definitive conclusions from the current war, it does seem that the European defence industrial-state complex will have to take account of this first lesson in the future and no doubt **accept, to put it simply, a more balanced trade-off between quality and quantity.**

2. Emergence of a new player: the Ukrainian industry.

A major heir to the Soviet military industry, Ukraine already had significant industrial capacity before the war (ranking 4th or 5th among arms exporting countries until 2014, for example). After the invasion of Crimea, this industrial fabric provided the technologies and skills needed for Ukrainian rearmament, with a view to modernisation. This is partly what enabled the Ukrainians to repel the Russian invasion in February-March 2022.

Three years of conflict have profoundly altered the situation, with massive growth in local production³, now capable, if financed, of achieving sales figures higher than those of companies in the major EU countries.

But it is more fundamentally the way in which this war industry operates that has changed, **with the emphasis now on production, but also on incremental innovation driven by feedback from military users**, which takes precedence over all other considerations. Operational requirements have adapted to the realities of the frontline, with

² Given the nature of the conflict, land armaments are the primary focus.

³ From 1 to 10 billion dollars between 2022 and 2024, and from 10 to 40% of the weapons used in Ukraine.

two emerging priorities: unmanned vehicles (air, land or naval drones) and digital technologies (electronic warfare, cyber, AI, etc.).

It is interesting to observe how the Ukrainian industrial sector has rapidly transformed itself to meet these expectations, with more than 700 new operators contributing to the production of munitions, drones or armoured vehicles, and a large number of start-ups mobilised to develop technological innovations designed to increase the performance of equipment tested in the field⁴.

There are many examples of these virtuous loops where, without developing new equipment, existing capabilities are improved, sometimes significantly, by the addition of a suitable digital device: artillery accuracy, drone jamming, target detection, electronic intelligence, etc

To meet the needs of warfare, which combine urgency, efficiency and rusticity, a Ukrainian industrial model - in a way “combat proven” - seems to be emerging, in terms of both production and innovation. Even if it does not concern the major systems for which the Ukrainian army remains dependent on Western aid, **this model will influence the transformation of the sector within the EU, where incremental innovation is already a mantra of the military, and under budgetary pressure.**

3. Creation of industrial partnerships:

Regardless of political considerations, **Ukraine today represents a key market for companies in the sector, as an outlet, investment area and a testing ground.** Faced with this upheaval, the Member States are adopting different strategies, in line with their shared desire to support Ukraine, but also taking into account their industrial capacities and interests:

- Those with a strong industrial base position themselves first as exporters of the equipment they produce, to meet orders from the Ukrainian government. When these orders are not financed, they give the equipment (which is included in their aid), or call on multilateral credits. However, this approach is being eroded by the rise of local manufacturers who are developing and producing - at lower cost and based on existing material - competitive equipment to which preference is given.
- Those with skills but no real industrial stakes to exploit are investing in partnerships with Ukrainian companies, either to produce locally (cheaper) or to develop innovative equipment. A Swedish company has signed an agreement to develop and produce locally satellite telecommunications terminals as an alternative for the American Starlink system⁵.
- In between, some Member States, such as Germany, are encouraging their companies to set up in Ukraine by helping them to invest in production or maintenance plants, so as to benefit from lower costs and guaranteed market access.

⁴ Source : SIPRI.

⁵ French companies are trying this niche approach for radar and drones.

These different strategies are legitimate. Nevertheless, they reveal **an increase in trade between Ukrainian industry and its EDTIB partners, some of whom are no longer hesitating, generally with the support of their government, to position themselves and invest locally.**

We are therefore seeing the emergence of a new approach (which, in certain segments, could act as a counterweight to American dependence, the risks of which a majority of Member States are beginning to appreciate). As a third country of the EU, Ukraine could, *nolens volens*, play a key role in the security of supply that Europeans are seeking.

4. The EU as a transmission belt.

After the adoption of the EDF in 2020, the war in Ukraine enabled the Commission to regain the initiative in the field of armaments by proposing new tools⁶ to finance the military industry by means of subsidies encouraging States to collaborate through joint purchases (ASAP, EDIRPA) or the European Defence Investment Programme (EDIP) and, as part of the REARM EU plan, the SAFE joint financing instrument. This panoply is destined to find its place, no doubt in a consolidated form, in the EU's next multiannual financial framework (from 2028).

In its recent White Paper⁷, the European Commission describes Ukraine as “*the world's leading defence industry laboratory*”. On the strength of this observation, and in response to political expectations, the Commission has proposed that Ukraine be included, like an associate country such as Norway⁸, among the beneficiary countries of its REARM EU plan, and in particular of the SAFE instrument reserved for cooperative production and procurement projects of European equipment.

With access to the European Defence Fund (EDF), this development, if approved by the Member States, will **put Ukrainian companies on an equal footing with their EU counterparts when it comes to taking part in collaborative projects for research, production or the acquisition of military equipment.** Given the capacity for innovation that Ukrainian companies are demonstrating, this opening-up could materialise in a number of areas, such as drones and cyber weapons. It could also see the EU subsidising production lines in Ukraine, or even the grouped acquisition of equipment produced on Ukrainian territory.

At this stage, the scenarios are still speculative, but **the network that the EU programmes are succeeding in forging between the participating companies will be extended to Ukrainian players and will thus help the EDTIB to evolve towards the practices successfully tested by the latter.**

At a time when, in order to make up for the announced withdrawal of the United States, the question of strengthening European defence, and that of an *aggiornamento* of the industrial sector that underpins it, is being raised critically, **it would seem that the Ukrainian experience must be taken into account.** By making Kiev the equivalent of

⁶ See “[The European Union and the defence industry](#)”, *Infographic*, Jacques Delors Institute, December 2024

⁷ See “[White Paper: what prospects for a European armament policy?](#)”, *Blogpost*, Jacques Delors Institute, March 2025

⁸ The UK benefits from a less favourable clause, as it must first sign a security agreement with the EU...

a Member State in one of the most sensitive and least advanced areas of European integration, the European Union is sending out a major political signal. But it is also creating **the conditions for closer ties with a country which, unfortunately due to circumstances, has become a champion of the defence industry, with different practices based on agility, innovation, operational capability and cost control. Isn't that the definition of competitiveness, i.e. the shared objective of all state and industrial players within the EU?**

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