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The European defence industry: challenges, opportunities and prospects

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Abstract:

The European defence industry is currently undergoing a process of change and renewed vitality. Issues linked to the unstable geopolitical landscape and the evident deterioration of the rules-based world order have placed this sector in the spotlight. The various measures approved by the European Union in recent years seem to foster the consolidation of this industrial reawakening, but it remains uncertain whether this renaissance will actually materialise. Similarly, questions about how to finance this effort and the popular support behind these measures raise concerns that must be resolved. This article aims to compile some of these measures and establish the main challenges, opportunities and future prospects for the European defence industry.

Keywords:

Industry, defence, European Union, EDTIB, economy

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Nulle defensio sine industria

The Russian invasion of Ukraine in 2022 and the changing geopolitical landscape have brought security and defence issues to the forefront of European political debate. Although it seems like a cliché at the end of 2025, it is still an issue that has been treated with ambivalence by both the European Union institutions and the 27 Member States. Among the complex myriad of elements that make up the terms security and defence, the industrial issue has probably suscited greater interest among policy makers and private actors, who are convinced that production capabilities are the basis for European security in the future.

Undoubtedly, the European defence industry plays a key role in this new strategic framework, but it is equally important to carefully analyse the how and how much of any decision in this regard. This is because investment in defence has cascading effects with uneven impacts[1] and must be aligned with the objectives and needs that truly underlie European interests.

For all these reasons, this opinion paper will address issues related to the state of the art of the European defence industry from a political-strategic and economic perspective. Subsequently, its challenges, opportunities and future prospects will be analysed separately. The conclusion will attempt to answer the question of whether this (re)emergence of the European defence industry is really a reaction to the current strategic environment or a genuine desire for long-term planning in this fundamental defence sector.

State of the art of the European defence industry: political-strategic and economic framework

From a legal perspective, one element of particular interest in the analysis of the European defence industry is how it fits into the Treaties. Firstly, defence industry issues are not included alongside the other provisions of the Common Security and Defence Policy (CSDP) in Articles 42 to 46 of the Treaty on European Union (TEU) – except for

[1] METCALFE, Sean, "European defence spending surge: which sectors will benefit?", *Oxford Economics*, 23rd July 2025, available at https://www.oxfordeconomics.com/resource/european-defence-spending-surge-which-sectors-will-benefit/

references to the European Defence Agency in Article 42(3) and Article 45 – but are relegated to Part Seven of the Treaty on the Functioning of the European Union (TFEU), in the General and Final Provisions[2]. There, in Article 346, it is stated that "any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material"[3]. This provision, designed primarily for defence procurement issues, has been invoked for this purpose on some 40 occasions by Member States[4] and consolidates defence as a sensitive area where countries have wanted to retain their sovereignty[5]. Unfortunately, this escape clause has led to problems and abuses of various kinds, most of them linked to its use for dual-use acquisitions that have undermined market integration[6].

In short, the essential legal framework of the EU defence industry – with its *vices and virtues* – has served as the basis for the development of another field of great interest and exponential scope: the political-strategic field.

Political-strategic framework

European Defence Industrial Strategy: "investing more, better, together and European"[7]

Announced during President Von der Leyen's 2023 State of the Union address, the European Defence Industrial Strategy (EDIS) is the first of its kind in the history of the EU and sets out a series of objectives to be achieved by Member States by 2030. Developed in a participatory manner[8], the EDIS introduces a term into the Union's strategic language

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[2] Similarly, it could be deduced that defence-related industrial matters are also separate from the general provisions on industry included in Article 173 TFEU, which refer to the adaptation of the sector to structural changes, the promotion of business creation and cooperation between businesses, and the impact of industrial development on innovation.

[3] Treaty on the Functioning of the European Union (2008), available at https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12012E/TXT:en:PDF

[4] DESCALZO GONZÁLEZ, Antonio, "La contratación pública en Defensa y el artículo 346 del TFUE", *La Razón,* 10th October 2025. Available at https://www.larazon.es/economia/contratacion-publica-defensa-articulo-346-tfue_2025101068e884fee81f41796942700a.html

[5] EUR-Lex, "Defensa de la UE y política de la industria europea de defensa", available at https://eur-lex.europa.eu/ES/legal-content/glossary/eu-defence-and-defence-industry-policy.html

[6] CASTILLA, Juan Carlos, "Coyuntura crítica en la defensa de la UE: innovaciones institucionales, integración de mercado y desafíos de gobernanza", *Instituto Español de Estudios Estratégicos,* Documento de análisis 47/2025, 25th June 2025, p. 10. Available at https://www.defensa.gob.es/ceseden/-/ieee/coyuntura_critica_en_la_defensa_de_la_ue_innovacion_institucional_integracion_de_mercado_y_desafios_de_-gobernanza

[7] EDIS Joint communication, "A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry", 5th March 2024. Available at https://defence-industry-space.ec.europa.eu/edis-joint-communication_en

[8] Twelve workshops were held over a period of three months, during which the Commission and the High

that will become fundamental to understand defence industrial needs: the EDTIB (European Defence Technological and Industrial Base). Although this concept is not original to the EDIS, it has entered the discussion with force, as it would precisely describe the set of production capabilities of European countries in the defence sector. Suffering from an undeniably small size compared to that of the major powers[9], the European Defence Agency (EDA) announced in its 2007 "A Strategy for the European Defence Technological and Industrial Base" that an adequate EDTIB was not sustainable within a national framework[10]. This is precisely one of the three main objectives set by the EDIS for 2030: that at least 50% of Member States' defence procurement budgets be devoted to the procurement of EDTIB products (with this target increasing to 60% by 2035). In addition, the Strategy sets as objectives for 2030 that the value of EU defence trade should represent 35% of the total value of the EU defence market and that Member States should jointly procure at least 40% of their defence equipment.

In short, the main objective of the EDIS is to increase investment overall, channel it into the consumption of technological segments of the defence industry and, as far as possible, ensure that this is done at European level. As a document "based on a military policy objective with guidelines for meeting the need to develop the EDTIB"[11], it still leaves much room for the financial specification of the objectives, a fundamental element for the success of the Strategy, given the current situation in this regard[12].

Representative received more than 270 contributions from over 90 stakeholders, in addition to a meeting with representatives from Ukraine. See http://defence-industry-space.ec.europa.eu/eu-defence-industry/edis-our-common-defence-industrial-strategy_en?prefLang=es

[9] See the historical perspective in "SÁNCHEZ, Carlos, "La Base Industrial y Tecnológica de Defensa en Europa (EDTIB) – desde la Guerra Fría y posterior austeridad hasta las amenazas actuales - ¿Quo Vadis?", *Economía Industrial,* Nº230, 2023. Available at https://dialnet.unirioja.es/servlet/articulo?codigo=9371718

[10] WILKINSON, Benedict, "The EU's Defence Technological and Industrial Base", European Parliament, 10th January 2020, p. 5. Available at https://www.europarl.europa.eu/thinktank/en/document/EXPO_IDA(2020)603483

[11] FIOTT, Daniel, "¿Más allá de la estrategia? Estrategia industrial y futuro de la defensa europea", *Real Instituto Elcano*, ARI 58/2024, 9th May 2024, p. 10. Available at https://www.realinstitutoelcano.org/analisis/mas-alla-de-la-estrategia-estrategia-industrial-y-futuro-de-la-defensa-europea/

[12] To see some figures on this issue, see DOMÍNGUEZ CEBRIÁN, Belén *et al.*, "Soberanía Estratégica de la Defensa", *Instituto Español de Estudios Estratégicos,* Documento de Opinión 17/2025, p. 13, 10 de marzo de 2025. Disponible en https://www.defensa.gob.es/documents/2073105/2320887/soberania_estrategica_de_la_defensa_2025_dieeeo17.pdf/f5ec9619-880d-3dc2-f485-cbdb2b61bb10?t=1741002026487

Andrius Kubilius: first Commissioner for Defence and Space

Although it might have seemed obvious that the 2024 elections would bring about a change in the College of Commissioners with regard to defence issues, there was – and still is – much speculation about the real impact of this change. The appointment of Andrius Kubilius, former Prime Minister of Lithuania and Member of the European Parliament since 2019, was undoubtedly a move that rewarded the geographical rationale behind the candidate, as the Baltic republics are both physically and symbolically the first line of defence against the Russian threat. From an institutional perspective, this Commissioner for Defence and Space fits his remit into the already complex alphabet soup of security and defence in the EU: High Representative of the Union for Foreign Affairs and Security Policy (which also includes the position of Vice-President of the Commission), European External Action Service (EEAS), European Defence Agency (EDA) and the various Directorates-General, Executive Agencies and Services of the Commission[13].

In short, the figure of the new Commissioner is undoubtedly a statement of intent regarding the Von der Leyen II Commission's desire to place defence in a prominent position. Despite this, and as other authors have already pointed out, there are still significant limitations on his actual powers and on the catalytic effect that his position may have on the development of the European defence industry[14].

White Paper for European Defence – Readiness 2030[15]

In Von der Leyen's mission letter in September 2024, Commissioner Kubilius was already tasked with presenting this document within the first 100 days with the intention of "framing a new approach to defence and identifying investment needs to develop European defence capabilities in all areas, based on joint investments"[16]. This plan also

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[13] Notably DG DEFIS (Defence and Space Industry), the European Research Executive Agency (REA) and the Foreign Policy Instruments Service (FPI).

[14] In this regard, see ROMERO JUNQUERA, Abel, "El nuevo puesto de Comisario de Defensa y Espacio. ¿Una apuesta de futuro o más de lo mismo?", *Instituto Español de Estudios Estratégicos,* Documento de análisis 73/2024, 20 de noviembre de 2024. Disponible en https://www.defensa.gob.es/ceseden/-/ieee/el_nuevo_puesto_de_comisario_de_defensa_y_espacio_una-apuesta_de_futuro_o_mas_de_lo_mismo

[15] "Libro Blanco Conjunto – Preparación en materia de defensa europea 2030", JOIN(2025) 120 final, 19th March 2025. Available at https://eur-lex.europa.eu/legal-content/ES/TXT/?uri=CELEX:52025JC0120

[16] *Mission letter*, 17th September 2024. Available at https://commission.europa.eu/document/download/1f8ec030-d018-41a2-9759-c694d4d56d6c_fr?filename=Mission%20letter%20-%20KUBILIUS.pdf

gave substance to some of the issues presented by the Commission in early March 2025 under the name "ReArm Europe Plan/Readiness 2030"[17]. Drafted in collaboration with the High Representative, the White Paper begins by analysing the paradigm shift in the international system since 1945, the deterioration of the strategic context (with a special mention of Russia, China and the Middle East) and the need for the EU to respond effectively to these challenges.

It then clearly states that the EU suffers from a number of fundamental shortcomings in its ability to "conduct complex and protracted military operations"[18]. These shortcomings can be grouped around those relating to critical defence capabilities[19], mobility and military infrastructure[20], border protection[21], legislative simplification and harmonisation (which the omnibus defence package presented in June 2025 aims to address[22]) and strategic reserves and preparedness reserves.

In a similar vein, the White Paper refers to the conflict in Ukraine, "a key scenario for the definition of the new international order"[23]. Based on the importance of EU support for this country, the document proposes two ways of channelling this aid: on the one hand, a general increase in military and other aid (ammunition, training and equipment, direct purchases from the Ukrainian defence industry) and, on the other, the country's full integration into defence and industrial capability development initiatives in this regard.

With regard to the structure of the European defence industry, and emphasising the idea of its fragmentation, the White Paper points to the need to aggregate demand (mentioning here the EDIRPA, which will be discussed later), reducing dependencies and ensuring

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[17] That second name ("Readiness 2030") was included after pressure from Spain, first, and then Italy, due to concerns about toning down the bellicose nature of the first term.
[18] Libro Blanco Conjunto, *op. cit.,* p. 6.
[19] Air and missile defence; artillery systems; ammunition and missiles; drones and anti-drone systems; military mobility; AI warfare, quantum warfare, cyber warfare and electronic warfare; and elements of strategic support and critical infrastructure protection (Libro Blanco Conjunto, *op. cit*., pp. 7–8).
[20] The Commission launched a "targeted consultation" on the Military Mobility Package in June and July 2025 which, as included in the Defence Roadmap published the 16th October 2025, will be presented in November of that year (see Joint Communication "Preserving Peace – Defence Readiness Roadmap 2030", JOIN (2025) 27 final, 16 October 2025, p. 13. Available at https://defence-industry-space.ec.europa.eu/document/download/9db42c04-15c2-42e1-8364-60afb0073e68_en?filename=Joint-Communication%20_Defence-Readiness-Roadmap-2030.pdf).
[21] Of particular relevance here are the Eastern Shield/Eastern Flank Watch, the European Drone Defence Initiative, the European Air Shield and the European Space Shield, all of which are included in the Defence Roadmap.
[22] See "Proposal for a Directive of the European Parliament and of the Council amending Directives 2009/43/EC and 2009/81/EC, as regards the simplification of intraEU transfers of defence-related products and the simplification of security and defence procurement", COM(2025) 823 final, 17th June 2025. Available at https://defence-industry-space.ec.europa.eu/document/download/cd1e5e0f-5c51-47f9-b147-17dcd45b0345_en?filename=Proposal-for-a-directive_defence-simplification.pdf
[23] Libro Blanco Conjunto, *op. cit.,* p. 12.

security of supply[24], creating a genuine EU-wide market for defence equipment and transforming the sector through "disruptive innovation" (an element that will also be discussed later). In the same vein, the White Paper calls for a "surge in defence spending" in line with the 31% increase already seen since 2021 by Member States[25]. To this end, it mentions the creation of the SAFE instrument (Security Action Facility for Europe), the coordinated activation of the escape clause in the Stability and Growth Pact (SGP)[26], the modification of cohesion policy to increase defence spending[27], the renewed role of the European Investment Bank, and the mobilisation of private capital for this purpose in the context of the Savings and Investment Union.

The White Paper concludes with a special mention of the role of associations within and outside the EU[28] and a list of issues and steps to be taken in the future. All in all, this document is almost certainly the most comprehensive framework of initiatives currently available to the EU in its attempt to stimulate the European defence industry (although not only that[29]). In fact, as we have seen, there is currently an unprecedented rate of compliance with the objectives included in this strategy.

Defence Readiness Omnibus[30]

To conclude this section on the political-strategic framework, it is essential to add the last of the five omnibus packages proposed by the Commission to accelerate this defence spending. The fundamental objectives of this legislative proposal (already in the ordinary

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[24] Although the issue linked to the defence industry is more recent, interest in the EU's dependence on raw materials predates this, with five lists of critical raw materials (CRMs) having been in existence since 2011. For further information, see https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials_en

[25] Specifically, up to a total of €326 billion (Libro Blanco Conjunto, *op. cit*., p.19).

[26] Probably one of the most controversial issues regarding the financing of defence spending is this point, which allows Member States to deviate from the deficit path by up to 1.5% of GDP if this expenditure is devoted to defence, with a time frame of four years and an estimated investment impact of €800 billion. The Council activated this clause for 15 countries in July 2025 and for Germany in October of the same year.

[27] With regard to this point, the mid-term review was used to approve, in September 2025, amendments to the main Cohesion Policy Regulations (Regulations 2021/1056, 2021/1057 and 2021/1058) to include the possibility of financing defence-related expenditure with these funds.

[28] The United States, NATO, the United Kingdom, Norway, Canada, neighbouring and candidate countries are mentioned, and Turkey and India are mentioned separately.

[29] It is important to refer once again to the Defence Roadmap (Joint Communication "Preserving Peace – Defence Readiness Roadmap 2030", *op. cit*.), which has specified many of the proposals included in the White Paper with objectives, milestones and indicators.

[30] "Communication from the Commission to the European Parliament and the Council – Defence Readiness Omnibus", COM(2025) 820 final, 17th June 2025. Available at https://defence-industry-space.ec.europa.eu/document/download/b2bcc9a0-5259-4543-9e1c-3af1dde8fbec_en?filename=Defence-Simplification-Omnibus.pdf

legislative procedure) focus on administrative simplification and streamlining. To this end, the package consists of two proposals for regulations, one proposal for a directive and two delegated acts.

The first regulation focuses on speeding up the granting of permits for defence readiness projects,[31] proposing the creation of a national authority or contact point for these issues, as well as setting a maximum period of 60 days for granting permits for these projects. The second regulation[32] amends existing legislation with the aim of facilitating investment in defence and modifies fundamental elements of the defence industry, with particular reference to chemicals, other pollutants and an amendment to the European Defence Fund Regulation. With regard to the Directive[33], this also amends existing directives with the aim of facilitating General Transfer Licences for defence products between EU countries and making public procurement rules more flexible in this regard (increasing thresholds and opening up new award procedures). Finally, the Commission proposes the adoption of two delegated acts which, on the one hand, amend the InvestEU[34] Fund's investment guidelines to adapt it to the needs of the defence industry and, on the other hand, specify the definition of controversial weapons in relation to sustainable finance regulations[35].

[31] "Proposal for a Regulation of the European Parliament and of the Council on the acceleration of permit-granting for defence readiness projects", COM(2025) 821 final, 17th June 2025. Available at https://defence-industry-space.ec.europa.eu/document/download/c53d4d46-27c0-4bb9-abe3-db58b50f2d7f_en?filename=Proposal-for-a-regulation_acceleration-permit-granting-defence-readiness-projects.pdf

[32] "Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EC) No 1907/2006, (EC) No 1272/2008, (EU) No 528/2012, (EU) 2019/1021 and (EU) 2021/697 as regards defence readiness and facilitating defence investments and conditions for defence industry", COM(2025) 822 final, 17th June 2025. Available at https://defence-industry-space.ec.europa.eu/document/download/7db4362c-1d2e-4395-9621-4abaebf57fd0_en?filename=Proposal-for-a-Regulation_defence-readiness.pdf

[33] "Proposal for a Directive of the European Parliament and of the Council amending Directives 2009/43/EC and 2009/81/EC, as regards the simplification of intraEU transfers of defence-related products and the simplification of security and defence procurement", COM(2025) 823 final, 17th June 2025. Available at https://defence-industry-space.ec.europa.eu/document/download/cd1e5e0f-5c51-47f9-b147-17dcd45b0345_en?filename=Proposal-for-a-directive_defence-simplification.pdf

[34] "Commission Delegated Regulation amending Delegated Regulation (EU) 2021/1078 as regards strategic investments in the field of defence set out in the investment guidelines for the InvestEU Fund", C(2025) 3802/ 03, 23rd June 2025. Available at https://defence-industry-space.ec.europa.eu/document/download/bde304e1-5ae4-4a16-9309-1a193483572a_en?filename=Delegated-Regulation-amending-Delegated-Regulation-EU20211078-InvestEU.pdf

[35] "Commission Delegated Regulation amending Delegated Regulation (EU) 2020/1818 as regards the definition of controversial weapons", C(2025) 3801/ 03, 23rd June 2025. Available at https://defence-industry-space.ec.europa.eu/document/download/701da3f4-2e65-4947-a498-63f807392889_en?filename=C_2025_3801_1_EN_ACT.pdf

In short, this latest package follows the path set out by the Commission since March 2025 and is in line with the objectives of the 2024 EDIS on investing more, better, collaboratively and in a European way.

Economic framework

Having analysed the main recent milestones in relation to the renewed political will to promote the development of the European defence industry, it is now time to take a closer look at the financial aspects of this reality: how much, how and when.

European Defence Fund (EDF)

The successor to the PADR (Preparatory Action on Defence Research) and EDIDP (European Defence Industrial Development Programme) programmes, this is the most long-standing and widely implemented mechanism for defence investment. Of the €8 billion that make up the EDF, €5.3 billion is dedicated to collaborative capability development projects and €2.7 billion to collaborative defence research (Figure 1).

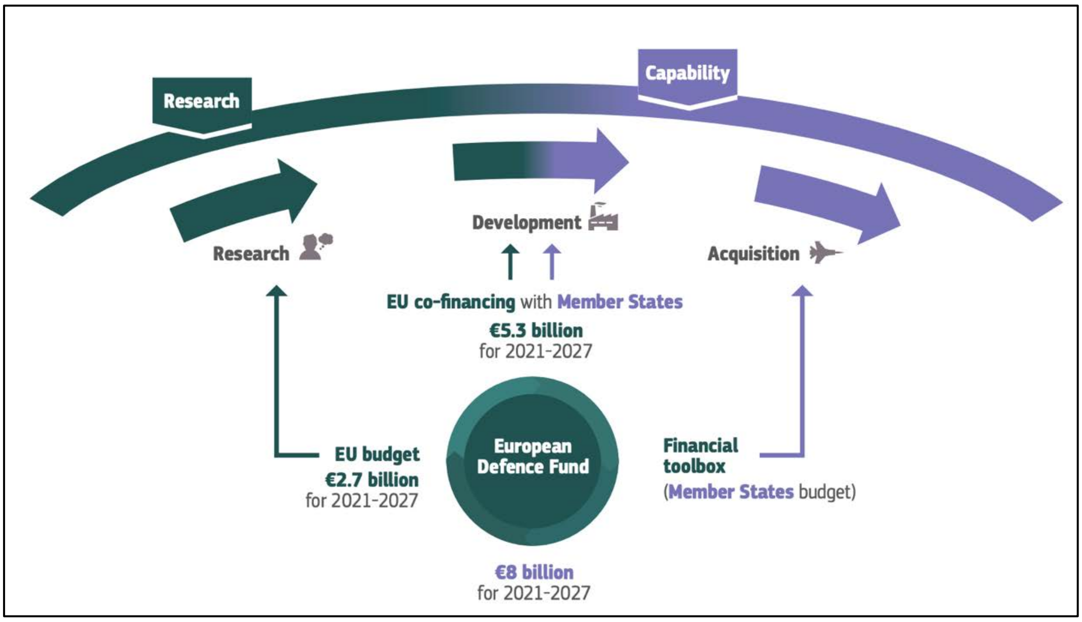

Figure 1. Financing life cycle under the EDF[36]

[36] Available at https://defence-industry-space.ec.europa.eu/system/files/2021-06/DEFIS%20_%20EDF%20Factsheet%20_%2030%20June%202021.pdf

The Fund is organised around Annual Work Programmes (five since 2021), which are further divided into different calls for proposals. For 2025, 33 calls for proposals worth €1.065 billion have been approved. The EDF finances up to 100% of the costs of eligible research activities (first phase of the cycle), while development activities (second phase) are co-financed with public investments from Member States or private industry players. The Fund does not finance procurement activities (third phase).

Of particular note within the EDF framework was the creation of the EU Defence Innovation Plan (EUDIS) in 2024. Focusing on small and medium-sized enterprises, start-ups and “other non-traditional actors in the defence industrial ecosystem” [37], 31% of EDF funding for 2025 was allocated to measures under this Plan.

Emergency measures: EDIRPA and ASAP

Approved in July and October 2023 and due to be ended in 2025, these two instruments are two sides of the same coin. The EDIRPA (European Defence Industry Reinforcement through common Procurement Act)[38] instrument, with a budget of €300 million, aims to encourage Member States (at least three per programme) to jointly procure defence capabilities and products (demand side). ASAP[39], on the other hand, with a budget of €500 million, aims to immediately increase the production capacity of ammunition and missiles in the EU (supply side).

In short, these two instruments, designed as temporary measures, simultaneously emphasise the structural issue of the need for collaboration between Member States on defence procurement and, in turn, the short-term issue of continuing to support Ukraine's war effort.

[37] EUDIS website, available at https://eudis.europa.eu/index_en#eudis-focus-in-2025
[38] “Regulation (EU) 2023/2418 of the European Parliament and of the Council of 18 October 2023 on establishing an instrument for the reinforcement of the European defence industry through common procurement (EDIRPA)”, 26th October. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302418
[39] “Regulation (EU) 2023/1525 of the European Parliament and of the Council of 20 July 2023 on supporting ammunition production (ASAP)”, 20th July 2025. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R1525

The continuation of the measures: EDIP

As discussed above, ASAP and EDIRPA were the first instruments to finance the efforts of the European defence industry. With the aim of establishing a mechanism to continue these measures, the Commission proposed a Regulation in March 2024 for the establishment of the European Defence Industry Programme (EDIP)[40]. With a temporal framework extending until 2027, the Regulation actually establishes issues beyond the aforementioned programme: (1) the establishment of EDIP and FAST (Fund for the Acceleration of Defence Supply Chain Transformation) mechanism; (2) the establishment of the Ukraine Facility; (3) the legal framework, requirements, procedure and effects of establishing a SEAP (Structure for European Armament Programme); (4) issues related to the security of supply chains and production of defence goods; and (5) the establishment of a Defence Industrial Readiness Board.

From a financial point of view, the EDIP[41] programme will be funded by €1.5 billion in grants and the FAST mechanism will focus on small and medium-sized enterprises. Secondly, and with the legal basis of Article 212 TFEU, the Ukraine Facility aims to continue supporting the country's war effort and assist in its reconstruction. Thirdly, the SEAPs – which will have their own legal personality – are intended to become the preferred joint procurement vehicles within the European framework. And, after the lengthy section devoted to supply chains and other similar elements[42], the proposed Regulation addresses the issue of the Defence Industrial Readiness Board[43], whose main function will be to assist the Commission "in determining the priority areas for funding, taking into account the agreed defence capability priorities [...] within the framework of the CFSP, in particular in the context of the Capability Development Plan"[44].

[40] "Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Industry Programme and a framework of measures to ensure the timely availability and supply of defence products ("EDIP")", COM(2024) 150 final, 5th March 2024. Available at https://defence-industry-space.ec.europa.eu/document/download/6cd3b158-d11a-4ac4-8298-91491e5fa424_en?filename=EDIP%20Proposal%20for%20a%20Regulation.pdf&prefLang=es
[41] This is also where the basis for the future European Military Sales Mechanism and European Defence Projects of Common Interest (EDPCI) is being developed.
[42] Specifically from articles 34 to 56 of the Regulation
[43] Already included in the EDIS, it will consist of one representative from the Commission, one from the High Representative, one from the European Defence Agency, one from each Member State and one from each associated country.
[44] "Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Industry Programme…", *op. cit.,* p. 68.

In October 2025, the Council and the European Parliament reached a provisional agreement on the Regulation, meaning that its final approval by both institutions will be forthcoming.

SAFE: "Security Action for Europe"

As its latest financing initiative, in May 2025 the Council approved the SAFE (Security Action for Europe) Regulation[45] with the aim of continuing to promote the acquisition of defence equipment and products as quickly as possible. Including the possibility of these purchases being made individually as well as collaboratively, the instrument aims to mobilise €150 billion, which will be granted to Member States[46] in the form of loans. Eligible activities will relate to two categories of products[47] with different eligibility conditions but with one element in common: that of the total cost of the components of the products purchased, the proportion of those originating from countries outside the EU (or from States associated with the instrument) shall not exceed 35%.

The deadline for expressing interest in funding and providing an estimate of the amount requested was the 29th July. By 30th November, these countries will have to have submitted their National Defence Investment Plans so that the first loans can be negotiated and approved in the early months of 2026. As of 30 July 2025, 18 Member States (including Spain) had requested an approximate amount of €127 billion.

[45] "Council Regulation (EU) 2025/1106 of 27 May 2025 establishing the Security Action for Europe (SAFE) through the Reinforcement of the European Defence Industry Instrument", 28th May 2025. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202501106

[46] A key element is its openness to the participation of third countries. In this regard, in September 2025 the Council authorised the Commission to begin negotiations for the participation of the United Kingdom and Canada in the instrument (see https://www.consilium.europa.eu/es/press/press-releases/2025/09/18/defence-investment-council-authorises-negotiations-with-uk-and-canada-on-their-participation-in-safe/).

[47] For further information on these categories, see Article 1 of Regulation 2025/1106.

Figure 2. Tentative allocation of the SAFE instrument by the Commission per Member State [48]

Country	SAFE allocation (€)	GDP (€)	Percentage of GDP (%)
Latvia	5.680.431.322	40.000.000.000	14,20%
Lithuania	6.375.487.840	79.000.000.000	8,07%
Hungary	16.216.720.524	206.000.000.000	7,87%
Estonia	2.660.932.171	40.000.000.000	6,65%
Poland	43.734.100.805	846.000.000.000	5,17%
Romania	16.680.055.394	354.000.000.000	4,71%
Cyprus	1.181.503.924	34.000.000.000	3,48%
Bulgaria	3.261.700.000	104.000.000.000	3,14%
Portugal	5.841.179.332	289.000.000.000	2,02%
Croatia	1.700.000.000	86.000.000.000	1,98%
Slovakia	2.316.674.361	131.000.000.000	1,77%

[48] Available at https://defence-industry-space.ec.europa.eu/eu-defence-industry/safe-security-action-europe_en

Country	SAFE allocation (€)	GDP (€)	Percentage of GDP (%)
Belgium	8.340.027.698	614.000.000.000	1,36%
Italy	14.900.000.000	2.200.000.000.000	0,68%
Czechia	2.060.000.000	321.000.000.000	0,64%
France	16.216.720.524	2.920.000.000.000	0,56%
Finland	1.000.000.000	276.000.000.000	0,36%
Greece	787.669.283	238.000.000.000	0,33%
Spain	1.000.000.000	1.594.000.000.000	0,06%
Denmark	46.796.822	392.000.000.000	0,01%

Table 1. Percentage of estimated SAFE allocation and percentage of GDP that this amount represents for each country. Source: own calculations.

Challenges, opportunities and prospects: the way forward

Having reviewed the fundamental elements of the current state of the art in the European defence industry, it is now time to address the issues that will determine its future. Although there is no doubt that political will – and its economic implications – point to an optimistic future, it is also true that the sector suffers from certain shortcomings of various kinds that must inevitably be overcome if the long-awaited and oft-repeated strategic autonomy is to be achieved.

Challenges

The role of public opinion

One element that must be at the heart of the debate is whether or not there is popular support for this push for the defence industry. For ideological or economic reasons, it is essential to understand that the issue will not be developed if there is no majority public support. According to Eurobarometer data from July 2025, Europeans ranked defence investment as the seventh priority among the ten offered in the study, with only 23% of respondents indicating that this was an area where the EU should invest in the coming years[49]. Although data for individual countries may contradict these numbers[50], the battle for public opinion is ultimately a challenge for the future of the European defence industry, as attested to by authors of the stature of Stephen Walt[51], among others.

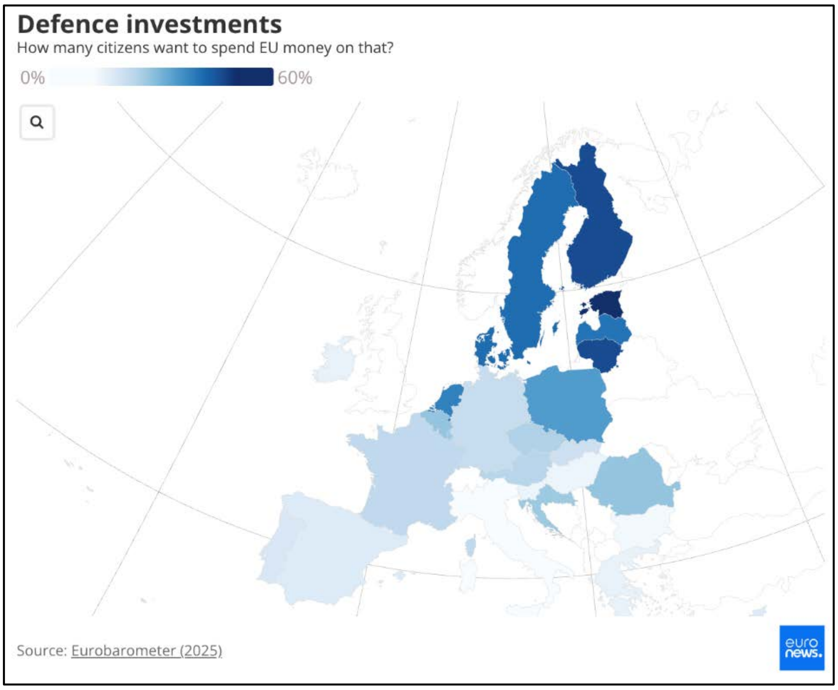

Figure 3. Percentage of support to defence investment among EU countries

Lower production capacities and sales volumes of companies

Another pressing challenge for the European defence industry is to increase its production capacity. According to some estimations, in 2023, nine European companies were needed to reach 10% of global sales, compared to just one American company[52]. With companies focused mainly on supplying their domestic markets (i.e., governments), they have contributed to increasing structural problems in the sector, such as reduced

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49 DELLANNA, Alessio y YILMAZ, Mert Can, "Are EU citizens on board with higher defence spending?", *Euronews,* 17th July 2025, available at https://www.euronews.com/my-europe/2025/07/17/are-eu-citizens-on-board-with-higher-defence-spending

50 In fact, for Spain, for this same year 2025, a Cluster17 survey stated that 59% of Spaniards were in favour of increasing defence spending, compared to 17% who placed it among their priorities according to Eurobarometer; It can therefore be deduced that there is a significant bias in the wording of the question (data available at https://agendapublica.es/noticia/19727/gasto-militar-ya-no-es-tabu-espana-analisis-partir-dicen-datos).

51 WALT, Stephen, "Why Europe Can't Get Its Military Act Together?, *Foreign Policy,* 21st February 2024, available at https://foreignpolicy.com/2024/02/21/europe-military-trump-nato-eu-autonomy/#cookie_message_anchor

52 GONZÁLEZ SIMÓN, Miguel Ángel, "Algunas claves económicas para una industria europea de defensa más integrada", *Funcas,* Cuadernos de Información Económica 307, July-August 2025, p. 11. Available at https://www.funcas.es/articulos/algunas-claves-economicas-para-una-industria-europea-de-defensa-mas-integrada/

defence budgets, duplication of efforts and market fragmentation[53]. Despite this, and as recent data shows, several European companies are increasing their production (especially of artillery shells) to such an extent that they now exceed US production and are approaching Russian production (Figure 4); similarly, the number of employees in these companies has increased considerably (Figure 5)[54].

Equipment	Company	Production by 2022	Expected production (Year)	Increase %
Artillery shells				
Artillery shells	Rheinmetall	70,000	1,100,000 (2027)	1471%
Artillery shells	CSG	-	300,000 (2026)	-
Artillery shells	Nexter	-	400,000 (2027)	-
Artillery shells	Mesko	-	150,000 (2027)	-
Total European artillery shells production			***1,950,000***	
Self-propelled howitzers (SP howitzer)				
CAESAR, SP howitzer	KNDX	72	144 (2025)	100%
Zuzana-2, SP howitzer	Konstrukta	20	40 (2025)	100%
Archer, SP howitzer	BAE Systems AB	4	12 (2025)	200%
Panzerhaubitze 2000, SP howitzer	KNDS, Rheinmetall	-	6 (2025)	-
2S22 Bohdana, SP howitzer	Kramatorsk	72	240 (2025)	233%
Total European SP howitzer production			***202 (442 including Ukraine)***	
Main Battle Tanks (MBT)				
Leopard 2A8, MBT	KNDX	-	50	-
Total European MBT production			***50***	
Other systems				
Abrams M1A2, MBT	General Dynamics	57	135 (2025)	137%
Taurus missile	MBDA/SAAB	60	60 (2025)	-
PAC-3 missiles	Lockheed Martin	380	650 (2027)	71%
HIMARS, MLRS	Lockheed Martin	48	96 (2024)	100%
Javelin missiles	Lockheed Martin	2400	3,960 (2026)	65%

Figure 4. Increase in the production of certain military equipment from 2022 onwards[55].

[53] FONFRÍA, Antonio y VICENTE, Silvia, "Un análisis prospectivo sobre la industria de la defensa europea y sus repercusiones en la española", *Revista CIDOB d'Afers Internacionals,* number 137, September 2024, pp. 123-124. Available at https://www.cidob.org/publicaciones/un-analisis-prospectivo-sobre-la-industria-de-defensa-europea-y-sus-repercusiones-en

[54] BURILKOV, Alex; BUSHNELL, Katelyn; MEJINO-LÓPEZ, Juan; MORGAN, Thomas y WOLF, Guntram B., "Fit for war by 2030? European rearmament efforts vis-à-vis Russia", *Kiel Report,* number 3, June 2025, available at https://www.kielinstitut.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/eef51261-68bf-4883-b1e9-ed0fb74a92ed-Kiel_Report_no3.pdf

[55] *Ibidem*, p. 69.

Company	Defence Employment 2021	Defence Employment 2024	Increase 2021–2024
Thales	41,291	41,291	0%
Leonardo	37,810	40,175	6%
Airbus	21,934	27,149	24%
Rheinmetall	16,005	22,743	42%
Safran	16,104	19,296	20%
Saab	16,033	19,239	20%
PGZ	15,712	18,028	15%
MBDA	12,859	14,837	15%
Naval Group	17,191	14,668	-15%
Indra	9,896	10,973	11%
Dassault Aviation Group	8,606	9,414	9%
KNDS	8,335	9,023	8%
Fincantieri	7,395	7,646	3%
Hensoldt	5,841	6,388	9%
CEA	7,312	7,519	3%
Diehl	4,156	4,550	9%
ThyssenKrupp	4,505	4,460	-1%
Navantia	2,795	3,456	24%
Total	**253,779**	**280,856**	**11%**

Figure 5. Employment figures for major European companies in 2021–2024[56].

Market fragmentation

Repeatedly defined as the major handicap of the European defence industry[57] and fuelled for years by the logic of so-called national champions, this market is dominated by major players in France, Germany, Italy, Spain and Sweden and more than 2,500 small and medium-sized enterprises, often leading to overlaps and duplication[58]. From a production perspective, this fragmentation means that European countries currently produce “ten [armoured vehicle] models or even more, while the Americans manufacture three or four models”[59]. This subsequently leads to different maintenance requirements, specific parts and spare parts for each model and, in general, solutions that do not contribute to the creation of economies of scale for logistics and maintenance.

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[56] *Ibidem*, p. 71.

[57] NAVARRO, Enrique, “Los programas de rearme: transparencia, fragmentación y orientación a capacidades”, *Defensa.com,* 10th July 2025, available at https://www.defensa.com/opinion/programas-rearme-transparencia-fragmentacion-orientacion

[58] SOLER, Paula y LORY, Gregoire, “La UE quiere crear un verdadero mercado único de la defensa europea”, *Euronews,* 20th March 2025, available at https://es.euronews.com/my-europe/2025/03/20/la-ue-quiere-crear-un-verdadero-mercado-unico-de-la-defensa-europea

[59] LORY, Gregoire, “Cómo la fragmentación del mercado bélico europeo lastra su efectividad”, *Euronews,* 7th April 2025, available at https://es.euronews.com/my-europe/2025/04/07/como-la-fragmentacion-del-mercado-belico-europeo-lastra-su-efectividad

Opportunities

The new Multiannual Financial Framework (MFF)

Although, as has been shown, the European authorities have given a decisive boost to the financing of the defence industry, this has not yet been definitively linked to the EU's financial instrument par excellence: the Multiannual Financial Framework. The new Framework for the period 2028-2034 is currently under negotiation, with significant difficulties arising from the European Parliament's reluctance to accept the reform of the CAP and cohesion policies[60]. Despite this, everything indicates that funding for the new budget in the field of defence and space will increase fivefold, reaching €131 billion and forming part of a large Competitiveness Fund of around €410 billion[61]. In addition, this new Fund will include the well-known Horizon Europe programme, which will finance defence research projects and also has a record budget of €175 billion[62].

The Ukrainian experience

Since the beginning of the conflict, the EU has undoubtedly supported Ukraine both politically and financially. However, little attention is paid to the significant reverse flow that the country is contributing to both the European industrial sector and the renewal of the strategic paradigm. As some analysts point out, this conflict is giving rise to “highly sophisticated tactical and technological solutions, many of which are being rapidly transferred to European industry through direct partnerships”[63]. As part of this opportunity, in 2024, the EU also established the European Union Defence Innovation

[60] WULFF, Jacob, “Disunited Parliament calls off EU budget rebellion”, *Euractiv*, 10th November 2025, available at https://www.euractiv.com/news/disunited-parliament-calls-off-eu-budget-rebellion/?utm_source=euractiv&utm_medium=newsletter&utm_content=Zone+name&utm_term=0-0&utm_campaign=EN_BREAKING_ALERT

[61] VIAÑA, Daniel, “Bruselas propone multiplicar por cinco la inversión militar y un sensible recorte a la PAC en su Presupuesto 2028-2034, *El Mundo,* 16th July 2025, available at https://www.elmundo.es/economia/2025/07/16/6877ce33e85ece767f8b459f.html

[62] For further information on the Commission’s MFF proposal, see KÖLLING, Mario, “La propuesta del nuevo Marco Financiero Plurianual 2028-2034: ¿cambio radical en la lógica del presupuesto de la UE?, *Real Instituto Elcano,* 25th September 2025, available at https://www.realinstitutoelcano.org/analisis/la-propuesta-del-nuevo-marco-financiero-plurianual-2028-2034-cambio-radical-en-la-logica-del-presupuesto-de-la-ue/

[63] MÁRQUEZ Y DE LA RUBIA, Francisco, “La integración de Ucrania en la arquitectura industrial estratégica de defensa europea”, *Documento de análisis del IEEE,* 2nd July 2025, p. 9, available at https://www.defensa.gob.es/documents/2073105/2726226/la_integracion_de_ucrania_2025_dieeea48.pdf/50e98111-e791-ef45-8825-9a1b09799ca8?t=1750323768067

Office (EUDIO) in Kyiv, which aims precisely to explore these new developments and increase cooperation between the Ukrainian and European defence industries[64].

The end of national champions?

Similarly, there are many voices arguing that, in the defence industry, we must move towards the end of national champions and encourage a "flexible attitude towards industrial concentration", despite the difficulties inherent in this issue[65]. If market fragmentation is a challenge, abandoning the logic of national champions is part of the opportunity to move towards the consolidation of major players at European level. The intermediate step is the current cooperative programmes which, although sometimes "costly and with excessively long delivery times"[66], are the best way to establish a transnational approach in the sector. From the Spanish perspective, recent advances in both the FCAS[67] programme and the Eurodrone[68] are proof that our country does seem to be committed to this approach.

Prospects

The financing stalemate

Although it appears that there will be an increase in the defence and space budget in the next MFF, the question of where these resources will come from remains uncertain. Among others, scenarios such as (1) increasing Member States' contributions to the budget, (2) issuing Eurobonds, (3) reallocating other budget lines, or (4) strengthening the EU's own resources system have been proposed[69]. In a similar vein, it is also worth

[64] For further information, see https://eudis.europa.eu/eu-defence-innovation-office-kyiv-eudio_en
[65] MARTÍ SEMPERE, Carlos, "La industria europea de defensa. Un análisis prospectivo", *Fundación Alternativas,* Documento de Trabajo Opex nº 93/2018, pp. 87-88, available at https://fundacionalternativas.org/wp-content/uploads/2022/07/ea60ae77f0e2cd4dcd21d0e21bdc072b.pdf
[66] ÁLVAREZ, Alberto, "Los campeones nacionales y la aplicación del art. 346 de la UE", *Defensa.com,* 11th December 2023, available at https://www.defensa.com/rincon-juridico-mariscal-abogados/campeones-nacionales-aplicacion-art-346-ue
[67] "El Gobierno da un impulso decisivo al futuro caza de combate europeo, el FCAS, con una inversión que supera los 700 millones de euros", *La Razón,* 10th November 2025, available at https://www.larazon.es/espana/defensa/gobierno-impulso-decisivo-futuro-caza-combate-europeo-fcas-inversion-que-supera-700-millones-euros-b30m_20251110690c9971de224c6cdd3aac66.html
[68] SORIANO, Ginés, "El Eurodrone completa su diseño definitivo y se prepara para comenzar a volar en poco más de un año", *Infodron,* 21st October 2025, available at https://www.infodron.es/texto-diario/mostrar/5471468/%20-completa-diseno-definitivo-prepara-comenzar-volar-poco-ano
[69] See these four proposals at https://www.iris-france.org/event/funding-european-defence-what-role-and-instruments-for-the-eu/#:~:text=The%20debate%20over%20how%20to,Strengthening%20the%20EU's%20own%20resources.

mentioning the growing role of the European Investment Bank in this regard, which may soon become a key player in this area[70]. Finally, it is important to note that, although the money is mainly moving in the public sector, private capital must accompany this initiative, resorting to "debt issues or capital increases to finance its production tools and expand its capacity"[71].

European Defence Projects of Common Interest (EDPCI)

The European Defence Projects of Common Interest are a shared solution to the financial issue and the inherent fragmentation of the market. This is because these projects are currently common practice in other sectors[72] (so there is institutional knowledge in this regard) and also strongly encourage cooperation between countries (so they can establish a cooperative practice that has a positive impact on business aggregation in the sector). Although their legal basis (included in Articles 15 and 16 of the future EDIP Regulation) has not yet been approved, some authors have already warned that it will be necessary to establish in greater detail the scope of the priority areas of the projects[73] and the role that will be played by EU funding and that of the Member States.

De-coupling vs de-risking

Finally, and as a fundamental part of the EU's drive towards open strategic autonomy, it is worth considering the future scenario of de-coupling and de-risking in the defence industry. This would involve further developing the logic of joint equipment procurement and ensuring that this benefits European production. This inevitably pits "buy European" against the transatlantic partner's "America first" approach[74], not to mention issues

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[70] "El BEI intensifica la financiación para la seguridad y la defensa europeas y las materias primas críticas", 21st March 2025, available at https://www.eib.org/en/press/all/2025-156-eib-steps-up-financing-for-european-security-and-defence-and-critical-raw-materials?lang=es
[71] "La industria de defensa europea marca récords en bolsa, pero no se despega de EEUU", *Swissinfo.ch,* 1st November 2025, available at https://www.swissinfo.ch/spa/la-industria-de-defensa-europea-marca-r%C3%A9cords-en-bolsa%2C-pero-no-se-despega-de-ee.uu./90262829
[72] It is important to add here that these Projects of Common European Interest also constitute one of the possible exceptions to the state aid regime (Article 107(3)(b) TFEU), meaning that they are also a way of providing extraordinary funding for this effort.
[73] BLOCKMANS, Steven, "European Defence Projects of Common Interest: From Concept to Practice", *EU Law Live*, 17th September 2025, available at https://eulawlive.com/op-ed-european-defence-projects-of-common-interest-from-concept-to-practice/
[74] KURT, Ümit, "Not De-coupling but De-risking NATO: Europe's Bid for Strategic Autonomy", *NAVI,* 20th October 2025, available at https://nato-veterans.org/not-de-coupling-but-de-risking-nato-europes-bid-for-strategic-autonomy/

relating to the European shortage of certain key materials, among others[75]. Furthermore, as various indicators already show, the EU does not lead in key technology segments, either in general terms or in those relating to the defence industry (Figure 6). In short, the EU must find its own space in order to reduce its dependencies while setting the standard to be followed in certain market niches.

[75] It is important to mention here that some authors indicate that European dependence on US equipment is sometimes "overestimated" and assert that it is usually "domestic purchases that dominate European public procurement [except] for imports of specific large-scale, high-end defence equipment, where the United States is the most important partner"; See BURILKOV, Alex; BUSHNELL, Katelyn... *op. cit.*, p. 63.

Table 1: Lead country and technology monopoly risk.

Technology	Lead country	Technology monopoly risk
Advanced materials and manufacturing		
1. Nanoscale materials and manufacturing	China	high
2. Coatings	China	high
3. Smart materials	China	medium
4. Advanced composite materials	China	medium
5. Novel metamaterials	China	medium
6. High-specification machining processes	China	medium
7. Advanced explosives and energetic materials	China	medium
8. Critical minerals extraction and processing	China	low
9. Advanced magnets and superconductors	China	low
10. Advanced protection	China	low
11. Continuous flow chemical synthesis	China	low
12. Additive manufacturing (incl. 3D printing)	China	low
Artificial intelligence, computing and communications		
13. Advanced radiofrequency communications (incl. 5G and 6G)	China	high
14. Advanced optical communications	China	medium
15. Artificial intelligence (AI) algorithms and hardware accelerators	China	medium
16. Distributed ledgers	China	medium
17. Advanced data analytics	China	medium
18. Machine learning (incl. neural networks and deep learning)	China	low
19. Protective cybersecurity technologies	China	low
20. High performance computing	USA	low
21. Advanced integrated circuit design and fabrication	USA	low
22. Natural language processing (incl. speech and text recognition and analysis)	USA	low
Energy and environment		
23. Hydrogen and ammonia for power	China	high
24. Supercapacitors	China	high
25. Electric batteries	China	high
26. Photovoltaics	China	medium
27. Nuclear waste management and recycling	China	medium
28. Directed energy technologies	China	medium
29. Biofuels	China	low
30. Nuclear energy	China	low
Quantum		
31. Quantum computing	USA	medium
32. Post-quantum cryptography	China	low
33. Quantum communications (incl. quantum key distribution)	China	low
34. Quantum sensors	China	low
Biotechnology, gene technology and vaccines		
35. Synthetic biology	China	high
36. Biological manufacturing	China	medium
37. Vaccines and medical countermeasures	USA	medium
Sensing, timing and navigation		
38. Photonic sensors	China	high
Defence, space, robotics and transportation		
39. Advanced aircraft engines (incl. hypersonics)	China	medium
40. Drones, swarming and collaborative robots	China	medium
41. Small satellites	USA	low
42. Autonomous systems operation technology	China	low
43. Advanced robotics	China	low
44. Space launch systems	USA	low

Figure 6. Risk of monopoly by China or the United States in different technological fields[76].

[76] GAIDA, Jamie; WONG-LEUNG, Jennifer; ROBIN, Stephan y CAVE, Danielle, "ASPI's Critical Technological Tracker

Conclusions: Reactive Europe or long-term planning?

Without a doubt, 2025 has been a pivotal year for the future of the European defence industry. From the approval of key legislation for the development of the sector to the mobilisation of resources of all kinds to stimulate and aggregate demand, Brussels is seeking to ensure that, by 2026, the continent's defence industry has the right tools to cope with the new strategic framework.

Although this flood of measures cannot be understood without the outbreak of war in Ukraine in 2022, many issues had already been pointed out by experts some time ago, constituting a grey rhino in European security and defence. Despite this, the volumes and strategies now being proposed show that the nature and ultimate goal of the measures seem to point to a clear idea: a Europe of security and defence is possible, but only if there is deeper cooperation and collaboration between all the actors involved. Furthermore, successfully undertaking such a task is not only a matter of injecting money into new budget lines, but also of ensuring along the way that the private actors that make up the industry have "the capacity to absorb, [...] manage resources and [...] generate technologies and capabilities that transcend the present and think about the situation in the future"[77].

For all these reasons, and although it is too early to say that there has been a major qualitative leap, the EU is undoubtedly equipping itself with the tools to deal with the threats ahead. While there is still room for refinement in many areas, the key features of this new drive are those identified in the EDIS: doing more, doing better, doing it together and doing it European.

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– The global race for future power", *Australian Strategic Policy Institute,* Policy Brief Report No. 69/2023, p. 8, available at https://ad-aspi.s3.ap-southeast-2.amazonaws.com/2023-08/ASPIs%20Critical%20Technology%20Tracker.pdf?VersionId=nVmWySgLSX2FMaS1U.uQVgQvvd_W427G

[77] CALVO GONZÁLEZ-REQUERAL, Carlos; FONFRÍA MESA, Antonio y MARTÍ SEMPERE, Carlos, "El aumento del gasto en defensa español. Financiación y necesidades", *Fundación Alternativas,* Informe No. 11/2025, 10th July 2025, p. 113, available at https://fundacionalternativas.org/wp-content/uploads/2025/07/INTERIOR_INFORME_DEFENSA_2025_FINAL-1.pdf