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**THE NEW EUROPEAN
DEFENCE INDUSTRIAL
STRATEGY: CAN THE EU
WALK THE TALK?**

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Introduction

On March 5, 2024, Commission President Ursula von der Leyen presented the first European Defence Industrial Strategy (EDIS, hereafter ‘the Strategy’) that she had announced in the 2023 State of the Union speech (European Commission, 2023; 2024b). The Strategy is an important milestone in the EU’s efforts to establish itself as a prominent security and defence actor. It sets out an ambitious plan to scale up the EU’s defence industry to improve the Union’s overall defence capability. EDIS signals the European Commission’s determination to assume a more prominent role in defence amid efforts for a greater European component in defence to navigate increasingly volatile world politics and the return of conventional warfare to European soil.

Nevertheless, EDIS bears unresolved issues, most notably pertaining to the Strategy’s budget. It remains undecided and unclear where the financing necessary to pursue and implement the Strategy’s objectives will come from. The main obstacles here are a lack of political unity and differing member state priorities, as well as a lack of trust between the defence industries and governments. This paper examines the EDIS and assesses the EU’s ability to implement the Strategy’s objectives and address emerging challenges while accounting for differing member state perspectives. For the EU to “walk the talk” and live up to its commitments, there is a need for long-term financial incentives at the EU level and strong support from the Capitals to compensate for a previous deficit in defence spending in the past and make the Union a capable actor in security and defence.

Unpacking the Strategy

The EDIS is a concerted effort to reshape the EU’s defence market to enable further support for Ukraine and enhance Europe’s defence capabilities in the long term. While Ukraine, under the proposal, is to benefit from and participate in some elements of EDIS, the main goal is to expand European defence industry capacity after years of underinvestment and unaddressed fragmentation (Besch, 2024). Building on previous instruments, strategies, and analyses, EDIS is closely aligned with the objectives outlined in the Union’s Strategic Compass for Security and Defence (EEAS, 2022). At its core, the Strategy emphasises defence readiness and focuses on the EU and its member states’ ability to safeguard citizens’ security, territorial integrity, critical assets, infrastructure, and democratic values. The Strategy’s central message is abundantly clear: the Union needs to invest more, better, together, and European.

The strategy puts forward specific objectives and timelines for changes to Europe’s defence market. At least 35 percent of the EU defence market’s value should come from intra-EU trade, at least half of member states’ defence procurement should be sourced from the European Defence Technological and Industrial Base (EDTIB), and member states should collaboratively procure 40 percent of defence equipment by 2030.

The EDTIB is a broader description of the defence industry, which also encompasses companies involved in the production of defence components, that are often small and medium-sized enterprises (SMEs) (Wolff, 2024; European Commission, n.d.). Further, the percentage of member states' defence procurement sourced from the EDTIB should rise to 60 percent by 2035.

The Commission plans to facilitate and support the Europeanisation of the Union's defence market by using various financial and regulatory tools to achieve these objectives. These efforts build on existing initiatives such as the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA) and the Act in Support of Ammunition Production (ASAP) (Grand, 2024). Heavily constrained by time and budget limitations, these measures served as preliminary attempts for the Commission's aspirations to strengthen its influence in defence industrial policy (Besch, 2024). The Strategy seems geared toward the next 2028-2035 Multiannual Financial Framework (MFF). To spur action before the next MFF, the Commission put forward the European Defence Industry Programme (EDIP) as part of the EDIS, with a €1.5 billion budget incentivising joint procurement from 2025 until 2027. The regulation aims to transition from short-term emergency measures like ASAP and EDIRPA to enhance the EU's defence industrial preparedness for the future and bridge the gap until the long-term changes envisaged with the upcoming MFF (European Commission, 2024a). Further, the Strategy calls for the European Investment Bank (EIB) to review its lending policy in 2024 to address the fact that it cannot invest in ammunition or weapons companies (Besch, 2024).

Navigating the challenges

The Strategy incentivises the development of the European defence industry, aims to enhance interoperability across member states, and addresses critical issues in defence spending (Grand, 2024). The proposed measures aim to foster collaboration among European governments while reducing reliance on non-EU defence acquisitions, where a significant portion currently originates from outside the EU, notably from the United States (Besch, 2024; Grand, 2024). To tackle the issue of relying on other powers' industries, the Commission proposes initiatives that include identifying and producing common-interest European defence projects, establishing a European military sales mechanism, and supporting the buildup of critical defence equipment reserves, all while streamlining procurement regulations. Despite these efforts, operationalizing EDIS faces challenges. This section explores these issues below.

1. Money Talks

Several analysts underline budgetary questions as the most prominent issue and problematise the Commission's reluctance to state how funds are to be allocated (Besch, 2024; Grand, 2024; Scazzieri, 2024; Wolff, 2024). The €1.5 billion requested in EDIP for 2025-2027 represents only a fraction of overall European spending: roughly 0.2 percent (Grand, 2024).

As the Union has a population of 448 million, and the 3-year EDIP has a budget of €1.5 billion, the programme amounts to just over €1 per citizen per year. Therefore, €1.5 billion will meet neither Ukraine's nor the EU's defence industry needs in the short term. In the long run, member states will need to agree on a substantially larger allocation of funds in the 2028-2035 MMF. This point is made further evident by Commission Vice-President Margrethe Vestager, who framed EDIP as a good incentive but noted that the real funding will need to come from member states (Pugnet, 2024b). Moreover, Internal Market Commissioner Thierry Breton's ask for €100 billion defence fund to accelerate these efforts confirms the necessity for substantially increased defence spending (Wax & Kayali, 2024). Additionally, the Strategy fails to mention potential EU borrowing for military aid to Ukraine. While there is a clear need for increased EU defence spending in the long term and that effort should not rely on deficit spending, there is an acute need to support Ukraine, which could more reasonably be funded through loans along the same logic as the NextGenerationEU (NGEU) budget (Wolff, 2024). These types of funds can serve for increased defence purchases temporary in nature, that should not be rolled out. In the long run, there are several proposed avenues for financing the Strategy, for instance by seizing frozen Russian assets or asset profits and allocating them toward the reconstruction of Ukraine and to bolster EU and Ukrainian defence (Besch, 2024). The problem is that these avenues will undoubtedly require long discussions on new legal bases and financial mechanisms (Pugnet, 2024a).

2. Cooperation with Third Parties

Regarding third-party cooperation, Ukraine is the primary impetus for the Strategy's extra-EU implementation. This is made clear by the envisaged EU-Ukraine Defence Industry Forum in 2024, the establishment of the Office for Innovation in Kyiv, and Ukraine's inclusion in EDIS. There are, however, lingering questions regarding Ukraine's contribution and its alignment with EU norms (Pugnet, 2024b). While many argue that Ukraine's fight against Russian aggression directly contributes to European security, not all member states consider that to be sufficient justification, and there are concerns about how Ukraine should benefit from the programme without fully adhering to EU industry norms (Pugnet, 2024b).

Beyond Ukraine, the role of international partnerships is rather vague. There is no explicit mention of strategic allies, such as the UK and Norway, meaning they are unlikely to be offered EDIS inclusion similar to what is on offer for Ukraine. Certain countries, such as Sweden, oppose the Commission's strict stance on third-country involvement, correctly pointing that excluding crucial partners like the UK lacks coherence (Scazzieri, 2024). In the long run, EU policymakers must weigh whether the strategic industrial policy should exclusively target the EU (and Ukraine) or incorporate other partner countries. Regarding cooperation with NATO, the EU aims to continue exchanging views and exploring synergies in supply chain security essential to capability development while also seeking further avenues of cooperation. However, as this initiative expands, close alignment within defence planning priorities between EU, national, and NATO levels is crucial (Grand, 2024). Achieving this alignment will require significantly enhanced engagement and coordination between NATO and the EU.

3. Question of Foreign Supply

Initially, both the EDIS and EDIP are unlikely to promptly address Ukraine's urgent needs or mitigate short-term capability gaps due to limited funding and typical implementation timeframes (Grand, 2024). Currently, the EU faces challenges in supplying ammunition to Ukraine, as the Union failed to meet its March 2024 target of providing one million artillery shells to Ukraine (Brzozowski, 2024). Thus, while the calls to abandon foreign supply represent a slow, deliberate and long-term shift within the EU, in the early stages of EDIS this might be unfeasible. From a strategic point of view, an abrupt shift away from external supply is not feasible for the EU, considering that demand far outweighs domestic production capacity. From an economic perspective, the Strategy seems to fail to prioritise industrial policy based on military capacity, intellectual property benefits, and costs rather than solely on defence industry revenue (Wolff, 2024).

Additionally, some argue that the Strategy's assessment of the EDTIB's capabilities is overly optimistic compared to Russia's production capabilities and warn against protectionist measures when foreign supply seems to remain crucial (Wolff, 2024). Analysts also show that Russia is better prepared for war than Europe and has increased imports of foreign equipment and munitions (Grozovski, 2024; Yanchik, 2024). Therefore, it seems that non-EU procurement will remain essential for Europe, at least in the short term and especially in meeting Ukraine's needs, given the EU's limited domestic production capacity.

The view from the Capitals

EDIS and all other European defence endeavours success is ultimately up to the member states. As Jan Pie, the Secretary General of the Aerospace, Security and Defence Industries Association of Europe (ASD), outlined, "the success of EDIS and EDIP will now depend very much on Member States' reaction. Speed and financial resources will be crucial for their implementation" (ASD, 2024). Following Commission adoption, EDIS will face challenges in how well member states comply with the strategy. The EDIP proposal is entering a co-legislation process that is expected to involve tough negotiations with both member states and the European Parliament (Pugnet, 2024a).

Member states such as Belgium, France, and Estonia have signalled support for initiatives in line with EDIS objectives, such as issuing bonds to bolster funding for the defence industry, reminiscent of strategies adopted during the COVID-19 pandemic (Pugnet, 2024b). For EDIP, Estonia, France, Poland, and the Netherlands have expressed interest in raising additional funds to meet the continent's re-industrialization needs beyond the proposed €1.5 billion budget (Pugnet, 2024a). During the World Economic Forum in Davos in January 2024, French President Emmanuel Macron advocated for joint borrowing and investments on the scale of those NGEU wrought by the pandemic, and supported Estonian Prime Minister Kaja Kallas' call for the issuance of Eurobonds to fund the EU's support for Ukraine (Bourgerly-Gonse, 2024).

Opposition to such spending might come from budget-conscious member states that are budget-conscious or those with smaller military industries, who could be wary of investing EU funds in ways that are unlikely to contribute to their domestic economy – such as Malta (Besch, 2024; Pugnet, 2024a). Moreover, frugal countries like Germany and the Netherlands are not in favour of issuing Eurobonds for defence, making the proposal backed by the whole EU unlikely (Besch, 2024; Kayali, Barigazzi & Posaner, 2024; Scazzieri, 2024). While major industry players within member states may welcome subsidies, they might have concerns regarding initiatives like a centrally managed defence export system or a joint programming and procurement function in Brussels. Such proposals could potentially impinge upon their ability to independently establish prices and finalize contracts (Pugnet, 2024a). Importantly, defence industries will need to be reassured by their governments that the demand is and will remain there.

Another important question is the ‘buy European’ part of EDIS. While some member states, like France, see European procurement preferences as necessary to enhance Europe’s strategic autonomy, other member states are less convinced. Many member states are reluctant to cut extra-Union procurement, instead preferring to attempt to maintain stronger defence ties with the U.S. Moreover, member states continue to seek an impact assessment from the Commission, which has yet to assess how the proposed measures would address the identified issues, complicated by the opaque nature of defence industry data and national security (Pugnet, 2024b).

What role for the Commission?

The European Commission’s past attempts to regulate the defence market and address national inefficiencies lacked authority over defence industrial policy (Besch, 2024). Member states’ resistance has stemmed from concerns over NATO duplication and a reluctance to delegate authority in defence matters (Besch, 2024). However, while NATO remains pivotal in European collective defence, it is becoming clear that the EU’s regulatory capabilities and budget can substantially contribute to enhancing European defence capability, and that contribution appears to be necessary for European defence (Besch, 2024). The Commission’s evolving role in defence is also made evident by von der Leyen’s proposal for a defence commissioner (Roussi, Possaner & Cienski, 2024).

The Commission needs to find a delicate balance to avoid being perceived as overly assertive in a traditionally national security domain. Member States have historically been averse to the Europeanisation of defence policy and may still resist any perceived supranationalisation of defence. To be successful, the EU needs to demonstrate the added value of this approach to member states and their industries, emphasizing the benefits of supporting European defence initiatives (Grand, 2024). The Commission has already pushed back on narratives of it encroaching on member state prerogatives, with Internal Market Commissioner Thierry Breton rejecting allegations of a ‘power grab’ and asserting that the proposal is in line with the EU treaties and will not infringe on member state competencies (Pugnet, 2024a). Therefore, the broadening role of the Commission should be perceived more as a leap in integration rather than a power-grab. Nevertheless, the Commission will need to facilitate both financial and political buy-in from member states for the Strategy to succeed.

Conclusion

In navigating European defence integration, the EU faces a considerable number of challenges. The goals outlined in EDIS represent a significant and much-needed step towards fostering collaboration among member states and reducing dependency on non-EU defence markets. Nevertheless, the way forward is riddled with obstacles, ranging from financial constraints to member states jealously guarding sovereignty in defence matters. While the Commission's role in shaping defence policy is expanding, it must avoid alienating member states wary of ceding authority in defence matters. Moreover, the Strategy raises questions regarding third-party participation and contribution beyond Ukraine and over EU-NATO cooperation. There is a clear need for the EU to bolster its defence capabilities given the evolving security landscape and increasing necessity of strategic autonomy as the world grows more volatile. Ultimately, successful implementation of the EDIS will hinge on robust collaboration, strategic foresight, and adept political manoeuvring as the EU seeks to forge a more self-reliant and resilient defence industry.

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