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The New European Defence Industrial Strategy: A Political Matter

by Tommaso Luisari

The Russian invasion of Ukraine has exposed the inability of the European Defence Technological and Industrial Base (EDTIB) to make available, in time and volume, a flow of *matériel* sufficient to meet the needs of EU member states. To kickstart faster EU-wide production, the European Commission has put forward a European Defence Industrial Strategy (EDIS) that calls for member states to invest "more, better, together, and European" when procuring military capabilities.[1]

A lot hinges on the Strategy's success. The EDIS is a policy proposal with far-reaching political implications: should it succeed in its aim to establish "common procurement [of defence products] as the norm",[2] the Commission will take the most important step yet in establishing itself as a policymaker in the defence-industrial field. Playing such a role is what the Commission has sought to do since the establishment of the European Defence Fund (EDF) in 2021, which was followed by other EU initiatives that saw the Commission attempt to expand its reach in defence-industrial policy.[3] Leveraging the political momentum afforded to it by the war in Ukraine, Brussels now seeks to accelerate this process through the EDIS. Should it succeed, the EU will be one step closer to establishing itself as a credible and independent geopolitical actor in the international arena. Conversely, failure would signal, to partners and adversaries alike, that the Union cannot leverage the collective potential of its defence industry and, ultimately, that member states' capacity to deter near-peer adversaries in protracted conflicts is limited. In sum, following years of calls for the Union to "get its act together" on defence,[4]

[1] European Commission, *A New European Defence Industrial Strategy: Achieving EU Readiness through a Responsive and Resilient European Defence Industry* (JOIN/2024/10), 5 March 2024, p. 2, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52024JC0010.

[2] Ibid., p. 9.

[3] Among the most notable initiatives are EDIRPA and ASAP.

[4] For the latest such call, see Stephen M. Walt, "Why Europe Can't Get Its Military Act Together", in *Foreign Policy*, 11 April 2024,

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nothing short of the EU's credibility in today's international relations is in play.

The rationale for EDIS: A stronger industry for a sovereign Union

The EDIS's significance is both political and economic. Politically, never before has the Commission stepped in so ambitiously in the defence-procurement processes of EU member states.[5] This political ambition comes under the guise of an exquisitely economic argument, namely that joining forces to procure collectively and locally would drastically increase the efficiency of investments and stimulate the consolidation of the EDTIB.

This economic premise is well-founded. Today, demand in the European defence-industrial market is, with few exceptions,[6] fragmented along national lines:[7] member states tend to procure, domestically when possible, bespoke military capabilities[8] that respond to investment decisions rooted in national defence planning processes. As a result, the higher-tier producers of the defence-industrial supply chain – Europe's flagship suppliers – are also fragmented along these same lines. They operate in tight national markets whose size does not justify the major investments to increase production capacity that today's security environment calls for. As the EDIS acknowledges, the lack of predictability of the volume of demand prevents European suppliers from achieving economies of scale and, more worryingly, forces them to rely on exports to remain profitable.[9] As a result, they have not been able to meet the sudden uptick in demand for both consumables and materiel that ensued from member states' support for Ukraine. The latter have thus been forced to look elsewhere: according to the EDIS, 78 per cent of the 240 billion euros worth of defence acquisitions made by member states between February 2022 and June 2023 were made from outside the EU". Most of these acquisitions (63 per cent) consisted of off-the-shelf products from existing industrial stockpiles.[10] That is, precious money that could have funded the increase of the EDTIB's capacity did not reach it, because it is currently unable to deliver in time and volume.

Two factors help to explain why this fragmentation persists. On the one

https://foreignpolicy.com/2024/02/21/europe-military-trump-nato-eu-autonomy.

[5] Alessandro Marrone, "La nuova strategia industriale Ue per la difesa", in *AffarInternazionali*, 7 March 2024, https://www.affarinternazionali.it/?p=107179.

[6] The most notable example of a pan-European supplier is the missile maker MBDA, which is a joint venture between the French Airbus, the UK's BAE Systems and Italy's Leonardo.

[7] Christian Mölling and Sören Hellmonds, "Security, Industry, and the Lost European Vision (#EDINA II)", in *DGAP Reports*, No. 10 (October 2023), https://dgap.org/en/node/39449.

[8] Even in cases where multiple European countries procure the same military capability, such as in the case of the Leopard II tank, different European member states tend to procure customised versions. For instance, the Leopard IIs procured by Sweden, Germany, and more recently Italy, all have different specifications.

[9] Max Bergmann et al., "Transforming European Defense", in *CSIS Briefs*, August 2022, https://www.csis.org/node/66595.

[10] European Commission, *A New European Defence Industrial Strategy*, cit., p. 3-4.

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hand lie the incentives of EU member states, keen to preserve their individual sovereignty and respective industries. As Sean Monaghan argues, member states are faced with a collective action problem whereby they "would be better off cooperating but are discouraged from doing so by individual incentives that work against joint action".[11] Overcoming these incentives requires sacrificing more national sovereignty than member states have been willing to do so far. On the other hand lie entrenched geopolitical interests. For one, the United States, while calling on Europeans to do more for their self-defence in principle, has at the same time underlined the need to avoid duplication with NATO and consistently opposed the consolidation of the EDTIB so as to safeguard the interests of its own defence-industrial complex – that is, sustain European demand for its products.[12] In doing so, it has found a helping hand in some Eastern European member states who are keen to preserve the American presence on Europe's eastern flank.

Hence, Europe's defence industry punches below its collective weight. The inefficiencies ensuing from its fragmentation are compounded by other factors that impinge on its capacity to deliver: for instance, many of the lower-tier small and medium-sized enterprises (SMEs) that populate the industry face challenges in accessing private finance[13] and, in a somewhat related challenge, many of the EDF projects pursued by these SMEs face difficulties in moving from the prototype stage to full commercialisation. Through the EDIS, the Commission wants to respond to these (and other) challenges; in doing so, it seeks to establish its credibility as a policymaker in the field and advance the Union's "strategic autonomy" – a term that, tellingly, does not appear in the EDIS owing to its political implications.

A policy proposal with political implications

The EDIS Communication contains nothing short of a mandate for the Union to become the main actor in defence-industrial procurement. Whether all member states will concur with this mandate remains to be seen; this notwithstanding, the EDIS Communication sets out a series of policy initiatives that the Union intends to pursue to fulfil it. Amongst the most consequential are the establishment of:

1) A Board to coordinate member states' procurement plans based on existing instruments,[14] prioritise EU funding for selected capabilities and liaise with industry to boost awareness of production capacity, in order to define informed defence industrial production objectives.

[11] Sean Monaghan, "Solving Europe's Defense Dilemma: Overcoming the Challenges to European Defense Cooperation", in *CSIS Briefs*, March 2023, https://www.csis.org/node/104207.

[12] Paula Alvarez-Couceiro, "Europe at a Strategic Disadvantage: A Fragmented Defense Industry", in *War on the Rocks*, 18 April 2023, https://warontherocks.com/?p=28598.

[13] European Commission, *A New European Defence Industrial Strategy*, cit., p. 24-25.

[14] The existing instruments are the CARD, CDP and PESCO.

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2) A new legal framework – the Structure for European Armament Programme (SEAP) – to formalise cooperative procurement procedures, that is, to ensure cooperation throughout the entire capability life cycle (from the R&D to the procurement and sustainment phase). The SEAP is intended as a pathway to follow up on EDF and PESCO projects.

3) A "European Military Sales Mechanism" that will facilitate the acquisition of the EDTIB's products by funding the stockpiling of capabilities procured through the SEAP (to reduce lead delivery time), opening defence procurement contracts to other member states than the stipulating ones and providing technical assistance for administrative capacity building in national procurement agencies.

4) A series of measures to boost productive capacity – such as support for the valorisation of innovative prototypes stemming from EDF projects and support to facilitate access to finance for the EDTIB's SMEs – and others to improve crisis response readiness.

Across the various initiatives, the Commission will sustain efforts to ensure the definition of common capability requirements, the adoption of shared standards and the mutual recognition of certifications, thereby addressing three issues that *de facto* prevent complete interoperability between European militaries. The Strategy also calls for member states to progress towards targets for common and local procurement of defence equipment: it respectively calls for 40 per cent of all equipment to be procured in common by 2030, against a current value of 18 per cent, and for 50 per cent of all defence procurement expenditure to be directed to EU suppliers by 2030 – 60 per cent by 2035 – against a current value of 22 per cent.

These proposals are ambitious. For one, as they currently stand, they are likely to elicit member states' concerns in relation to the duplication of NATO's role. More details are required to understand how the Board's activities relate to those of the Conference of National Armament Directors (CNAD) within the NATO Defence Planning Process (NDPP),[15] and NATO-EU coordination on common standards will be required in the context of the SEAP. Tellingly, the section of the EDIS dedicated to cooperation with NATO is lacklustre, although this may be a deliberate attempt by the Commission to leave it up for member states to define the scope of the partnership.

Moreover, the EDIS targets lie between the ambitious and the unrealistic: not only do they require a paradigm shift in a tight timeframe; they are also seemingly at odds with the ongoing re-armament plans, such as the Polish one,[16] that member states are pursuing.

[15] For more information on the NATO NDPP, see: NATO, *NATO Defence Planning Process*, 31 March 2022, https://www.nato.int/cps/en/natohq/topics_49202.htm.

[16] Warsaw has announced that it will procure a host of capabilities, mostly from South Korean (main battle tanks and tracked artillery) and US (air defence systems, etc.) suppliers. See Matthew Karnitschnig and Wojciech Kość, "Meet Europe's Coming Military Superpower: Poland", in *Politico*, 21 November 2022, https://www.politico.eu/?p=2315658.

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Should the EU fall short of these targets, similarly to how it fell short of the promise to deliver 1,000,000 shells to Ukraine within a year,[17] it would have negative implications on its credibility. Yet these targets notwithstanding, some proposals have the potential to deliver lasting effects. This is particularly true for the provision of technical assistance to national administrations and the renewed emphasis on supporting innovation and access to finance at the lower tiers of the defence-industrial supply chain.

All in all, for the EDIS to succeed, a substantial political buy-in by member states is required, but it is by no means guaranteed.[18] The level of political buy-in will be reflected by the final funding envelope – the current one, envisaged as transitory towards the 2028-2034 programming period, sits at a meagre 1.5 billion euros, far below what is needed to establish "common procurement as the norm". However, in this respect, the EDIS calls for strong political decisions that would unlock promising funding sources, such as adjusting the EIB's lending policy, repurposing future structural funds spending programmes to channel more funding towards the EDTIB[19] and, most controversially, "using the windfall profits of frozen Russian assets to jointly purchase military equipment for Ukraine".[20]

A high-stakes debate

Ultimately, the shape of the EDIS will be determined once negotiations with member states and the European Parliament are complete (2025 at the earliest). As NATO's former Assistant Secretary General for Defence Investment puts it, "the jury [on the EDIS] is still out":[21] the final product is likely to look substantially different from the existing proposal. Indeed, member states may push to feature more prominently the voice of the market's demand setters, the national armed forces, either directly or by advocating a bigger role for the intergovernmental European Defence Agency (EDA).[22]

Yet the debate on the EDIS is but a proxy: loitering behind the scenes is the wider debate on the EU's role in European defence. If proponents of more enhanced European defence cooperation – led by France – can bring those wary of a Europe less reliant on US security guarantees on board, then the

[17] Olaf Scholz et al., "Letter: Call for a Collective Effort to Arm Ukraine for the Long Term", in *Financial Times*, 31 January 2024, https://www.ft.com/content/0d24aade-7701-4298-89ff-2843a47466c5.

[18] For a sceptical take, see Jan Joel Andersson, "Building Weapons Together (or Not)", in *EUISS Briefs*, No. 20 (November 2023), https://www.iss.europa.eu/node/3030.

[19] European Commission, *A New European Defence Industrial Strategy*, cit., p. 27.

[20] European Commission, *Speech by President von der Leyen at the European Parliament Plenary on Strengthening European Defence in a Volatile Geopolitical Landscape*, 28 February 2024, https://ec.europa.eu/commission/presscorner/detail/en/speech_24_1186.

[21] Camille Grand, "Opening Shots: What to Make of the European Defence Industrial Strategy", in *ECFR Policy Alerts*, 7 March 2024, https://ecfr.eu/?p=119122.

[22] Michele Nones, Alessandro Marrone and Gaia Ravazzolo, "Lo stato del processo di integrazione del mercato europeo della difesa", in *Approfondimenti dell'Osservatorio di politica internazionale*, No. 212 (March 2024), https://www.iai.it/en/node/18240.

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EDIS can herald the birth of a coherent European pillar within NATO and pave the way for more ambitious projects, such as the creation of independent EU capabilities in areas where European militaries are largely dependent on US support.[23] In this framing, the debate on the EDIS is the debate on the most important building block thus far of a collective approach to European defence. At stake is the Union's ability to "get its act together" on defence and adequately support Ukraine in pursuit of its own security interests – or, in other words, its credibility as an independent geopolitical actor.

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[23] Past Western interventions, such as the one in Libya in 2011, highlighted that European armed forces are dependent on US capabilities in a series of fields, most notably for airborne strategic enablers (strategic airlift and various subfields of intelligence, surveillance and reconnaissance (ISR) activities, such as AWACS) and anti-submarine warfare.

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