



THE DEFENCE INDUSTRY: WHAT CHALLENGES FOR THE NEW EUROPEAN PARLIAMENT?

ARES Group

Octobre 3rd 2024

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ABOUT THE SEMINAR

This ARES Seminar Report summarises the exchange between the panelists. This seminar intended to provide an opportunity for a constructive and forward-looking debate between national and European decision-makers, financial stakeholders, and defence companies, to share views on the challenges faced by the defence industry in light of the new European Parliament.



The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (IRIS), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

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ARES Group - EU

PROGRAMME

ARES Seminar

THE DEFENCE INDUSTRY: WHAT CHALLENGES FOR THE NEW EUROPEAN PARLIAMENT?

October 3rd, 2024, Brussels

2:15 – 2:25: Welcome Address and Introductory Speech

Jean-Pierre MAULNY, Deputy Director, French Institute for International and Strategic Affairs (IRIS)

2:30 – 4:00: EDIS, EDIP and Beyond: What Strategic Choices for the Next Five Years?

Mika AALTOLA, Member of the European Parliament

Sylvia KAINZ-HUBER, Deputy Director, DG DEFIS for Defence Industry and Head of Unit for EDF Programming, European Commission

Steen LYNENSKJOLD, Executive Vice-President Government & Partnerships, Terma Group

Federico SANTOPINTO, Senior Research Fellow, French Institute for International and Strategic Affairs (IRIS)

Moderation: **Gaspard SCHNITZLER**, Senior Research Fellow, French Institute for International and Strategic Affairs (IRIS)

4:25 – 5:55: Ensuring Sustainable Funding for the European Defence Industry: Money as a Key Factor?

Katarzyna ANANICZ, Head of the CDSP Unit, Permanent Representation of Poland to the EU

Jan Joel ANDERSSON, Senior Analyst, EU Institute for Security Studies (EUISS)

Tobias CREMER, Member of the European Parliament

General Christophe GOMART, Member of the European Parliament

Renzo TOMELLINI, Leonardo representative in Brussels

Moderation: **Federico SANTOPINTO**, Senior Research Fellow, French Institute for International and Strategic Affairs (IRIS)

5:55 – 6:00: Conclusion

Jean-Pierre MAULNY, Deputy Director, French Institute for International and Strategic Affairs (IRIS)

INTRODUCTION

On October 3rd, 2024, the ARES Group hosted a high-level panel discussion in Brussels to address the challenges faced by the defence industry in light of the new European Parliament. This discussion took place in the context of an increasingly unstable international environment related to, especially, the war in Ukraine and Gaza. Defence has, therefore, evidently emerged as a key priority for EU Member States. A range of initiatives—such as the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA), the Act in Support of Ammunition Production (ASAP), the European Defence Industrial Programme (EDIP), the European Peace Facility (EPF), and the European Defence Industrial Strategy (EDIS)—have already been established or are under consideration to support the European defence sector and strengthen the European Union’s (EU) defence capabilities.

However, significant challenges persist. These include increasing collaborative investment among Member States (MS), improving the responsiveness of the European defence industry, securing supply chains, reducing external dependencies, fostering a culture of defence readiness, and integrating the Ukrainian defence industry into the European Defence Technological and Industrial Base (EDTIB). That being said, the challenge for the EP in the following months is the issue of financing these efforts and initiatives, notably EDIP. To bring this out more clearly, two panels examined the future direction of European defence and armament policies over the next five years through the lens of financing and funding. The first panel, titled “EDIS, EDIP and beyond: What strategic choices for the next five years?”, examined the strategic decisions that lie ahead while the second panel, “Ensuring sustainable funding for the European defence industry: Money as a key factor?”, explored the type of defence effort Europe envisions and the potential impact of increased EU funding on the defence sector.

EDIP, EDIP AND BEYOND: WHAT STRATEGIC CHOICES FOR THE NEXT FIVE YEARS?

The first panel focused on enhancing European industrial readiness within the current and future Parliament's Multiannual Financial Framework (MFF), addressing aggregating demand and ensuring coherence between defence instruments. Experts examined the implications of EDIP and the "after EDIP", emphasising the need to strengthen defence capabilities through strategic initiatives and funding mechanisms. The speakers also discussed the political challenges the European Parliament and European Council will have to face in the next five years.

European Defence: Long-term Vision, Regional Cooperation, and Ukraine's Integration

As one panellist insightfully stated, "we are currently facing a geopolitical momentum," highlighting the urgency of addressing shared security challenges. Although the speaker recognised the threat perception shared among Member States today, which has been crucial in driving collective action on defence priorities since the beginning of the war in Ukraine, a longer-term perspective on defence is necessary. In this context, Denmark stands as an insightful example with a 10-year defence spending commitment (2023-2033) and long-term agreements signed with its defence industry, particularly in air defence. Moreover, the Danish government has started to invest public pension funds in defence. This represents a key step toward securing private financing beyond traditional sources. Nonetheless, despite proposals for increased defence funding, there was a consensus among the panel that current efforts remain insufficient. Looking ahead, speakers called for a cohesive long-term vision beyond EDIP, to better aggregate demand and ensure coherence between current and future funding instruments.

Taking the Nordic and Baltic regions as examples, the discussion also turned to the critical role of regional cooperation in driving defence innovation and tackling unique security challenges. Experts highlighted the importance of joint procurement mechanisms to better align industrial collaboration with national security requirements, while acknowledging that significant

improvements are still needed to improve these processes. Additionally, the integration of Ukraine into European defence strategies was underscored as essential for addressing evolving security challenges. One of the speakers stressed the importance of aligning Ukraine’s defence production and supply with broader European efforts. In a similar vein, another panellist argued that Denmark strongly supports the inclusion of the Ukrainian industry in EDIP, as the Danish government is actively providing funding to the Ukrainian defence sector.

Prioritising Defence Industrial Policies vs. Focusing on Capabilities?

In addition, the discussions raised important concerns about eligibility in defence procurement, specifically on how to define a “European entity” for such purposes. A key issue was the balance between opening to the highly developed DTIB of allied nations—particularly in considering partnerships with non-EU countries like the UK and the US—and ensuring that eligibility rules foster European autonomy and innovation. The debate highlighted the risks of overly strict eligibility criteria, which could exclude valuable external partners to deliver high-level capabilities, but also the necessity of promoting a resilient European defence industry. This would ensure Europe’s capacity to meet its own defence needs, which revealed the vulnerability of relying on external supply chains. Autonomy in defence production was emphasised as a strategic priority.

Moreover, the panellists discussed the tension between prioritising defence industrial policy versus focusing on actual capabilities. One of the experts underlined that, in Finland, the primary focus is not on rigidly adhering to industrial strategies, rather on what is necessary for security. This capability-driven approach contrasts with broader European tendencies that tend to prioritise industrial policies. Indeed, the war in Ukraine has underscored the importance of this capability focus, particularly when it comes to the autonomy and ownership of defence equipment. This speaks to concerns surrounding International Traffic in Arms Regulations (ITAR), where reliance on foreign technologies can limit a country’s operational sovereignty. The panellist concluded that European defence procurement should prioritise the capability to fully control and use defence assets from “cradle to grave”—from

production to deployment—ensuring both performance and sovereignty over critical military equipment.

Implementing EDIP: A Challenge for the European Parliament

One of the key challenges outlined by another panellist involved the significant political decisions that the European Parliament and the European Council will need to confront over the next five years, in particular concerning EDIP. At the institutional level, Member States might perceive the Defence Industrial Readiness Board (the Board) proposed in EDIP as a tool for the European Commission to gain too much control. The introduction of Structures for European Armament Programme (SEAPs) has also raised questions about further complicating an already complex organisational landscape and dividing Member States by forming groups with potentially differing interests. Another major point raised was the evolving role of the EU as a central purchasing entity, mediating between industry and Member States—a role it has already assumed in other sectors, such as with the Chips Act and the Critical Raw Materials (CRM) Act. This central role could streamline procurement processes but may also face resistance from those who fear centralising too much power within the EU. Furthermore, security of supply was identified as another pressing concern, with the Commission’s proposal being very ambitious. There is potential to establish, in collaboration with Member States, EU-level priority orders for defence supplies, with the authority to sanction entities that fail to comply. This could greatly enhance coordination in meeting defence needs but might also encounter legal and political hurdles. Lastly, the speaker raised the critical issue of third-country participation and the broader question of strategic autonomy. As the EU seeks to reduce reliance on external actors, how it navigates relationships with non-EU countries in defence cooperation becomes increasingly difficult. Underpinning all these challenges is the issue of funding, with the speaker underscoring that any advancements or new initiatives will require substantial financial resources, an ongoing issue for EU defence policy.

Addressing Europe's Defence Funding: Innovative Financing and Strategic Coordination

Finally, the panellists highlighted significant challenges in securing adequate defence financing. One of the key concerns raised by two speakers was the need for sufficient budgeting under the MFF. Although the current financial proposal reflects a substantial increase, it is widely considered insufficient to effectively respond to these emerging security threats. The experts of the first panel stressed that Europe's defence funding must be increased considerably to address the urgency of the moment. As such, several speakers called for innovative financial models to bolster defence spending. They proposed solutions such as leveraging private investment, including public pension funds, and repurposing frozen Russian assets to finance critical defence needs.

Another significant challenge discussed was the need for coordination between the European Commission and Member States regarding the allocation of defence funds, particularly under the EDF. The panellists stressed that it is not solely the Commission's role to dictate defence priorities; Member States must agree on how these funds should be spent to ensure they address the most pressing capability gaps. This alignment between national priorities and collective European defence strategies was seen as crucial to making the best use of available resources and ensuring Europe readiness in dealing with current threats.

ENSURING SUSTAINABLE FUNDING FOR THE EUROPEAN DEFENCE INDUSTRY: MONEY AS A KEY FACTOR?

The second panel focused on the increasing military expenditures of EU countries in light of NATO's target of 2% of GDP for defence spending. As most EU Member States are actively raising their defence budgets, the panel emphasised the need for realism regarding what can be achieved at the national level. The discussion on EU defence funding raised the question of whether to increase national defence budgets or EU-wide funding, highlighting the political nature of the issue and the need for a holistic approach. While some argued that current funding may be sufficient, concerns were raised about disparities between Member States in meeting the 2% GDP target.

Ensuring European Defence Readiness: The 3-Pillar Rule

As highlighted by one of the speakers, the European Union's primary role in defence is to preserve and maintain peace. However, the emergence of new challenges has compelled a re-evaluation of the EU's defence strategy. A crucial priority, for the EU, is to regain its defence autonomy, both militarily and industrially, which, for the expert, can be accomplished through three foundational pillars:

- The **institutional pillar** involves the establishment of a genuine and autonomous European Union pillar within NATO. This approach encourages all Member States to allocate *at least 2%* of their GDP to defence spending, although significant disparities in current defence budgets persist. Furthermore, there is a pressing need for more “command posts” within NATO's military staff as well as efforts to increase Member States' capabilities to match those of the United States in critical areas such as space, cyber warfare, and artificial intelligence.
- The **industrial pillar** focuses on the introduction of a “Bi-European Act” designed to enhance the competitiveness of the EDTIB. This act represents a major shift in the procurement and production processes of Member States. It addresses issues like duplication, interoperability, and slow production rates that currently plague the defence sector. Notably, the lack of cooperation within the defence industry costs an estimated €26 billion annually due to duplicated efforts and overcapacity. The primary objective of this pillar is to strengthen the competitiveness of the EDTIB by implementing a genuine European preference in joint arms procurement programmes. As such, the 40% target of joint arms purchases in EDIP reflects this approach.
- Lastly, the **civilian pillar** seeks to promote a genuine defence culture among the population, fostering a sense of general mobilisation. Many Europeans have long believed in the “dividend of peace”, and there is a need to advocate for voluntary military service and create campaigns that promote the armed forces and encourage women's participation.

A key question arises: How can these ambitious plans be financed? For the expert, if each country increases its own defence investment relative to its GDP, debt financing could become a viable option. Additionally, facilitating banks' investments in defence initiatives will be

essential, ultimately ensuring that a greater proportion of resources is directed towards strengthening Europe’s defence capabilities.

More Money in Defence or No More?

The discussion then shifted to the crux of the issue: funding EU defence. This prompted the following interrogation: Should EU Member States increase their national defence budget or raise EU defence funding? This question is eminently political. If done at the EU level, Member States then acknowledge that there are common EU defence issues. As such, one of the panellists asserted that “if we want to spend more money, we can”. However, a shift in momentum is necessary, especially given the growing fatigue among European Member States regarding defence expenditures. For long-term financing solutions, there needs to be an open debate across Europe about the necessity of these investments. While such discussions may resonate in Lithuania, they might not find the same urgency in other countries where threats are perceived as less imminent. This highlighted the importance of approaching defence funding holistically, keeping in mind the constraints that come with it. Essentially, for the speaker, “funding for defence cannot come at the cost of social justice; it is crucial to consider how increased military spending affects broader societal issues”. Going further in this analysis, the emphasis should be on developing a comprehensive industrial policy within a common market framework that values competitiveness. Ultimately, the goal is to reach a defence spending target of 2% of GDP. Achieving this objective requires clear communication about what this funding is intended for, linking it to a broader concept of holistic security. There is also a pressing need to address the speed and realism of implementation.

However, another panellist presented a bold perspective, suggesting that perhaps “we do have enough money, maybe even too much money.” Many Member States have significantly increased their defence budgets, raising concerns about the feasibility of all countries reaching the 2% GDP target, especially since some nations may struggle to meet this benchmark. As the panellist pointed out, the focus should not perhaps be on spending more—after all, Europe is already investing more in defence than Russia. This disparity could widen the gap between EU countries and complicate policy decisions at the EU level. Moreover, the current approach appears to prioritise financing without thoroughly considering the logistics of production. Therefore, it is crucial to evaluate whether current funding levels are adequate. Production

rates have surged sharply, with large manufacturing facilities established across Europe, indicating that the capacity for defence production is expanding.

To conclude, two speakers argued in favour of using national credits to finance defence efforts, rather than European-level funding. Indeed, they emphasised the importance of maintaining sovereignty over defence budgets. In contrast, another panellist explained Poland's position, which is more straightforward. Put simply, the priority is put on obtaining the necessary funds, regardless of whether they come from national or European sources.

Poland in Supporting European Defence Spending

Poland is playing a pivotal role in supporting European defence, as evidenced by its commitment to allocate 4.2% of its GDP to defence spending in 2024, with projections indicating an increase to 4.7% in 2025. This significant investment accounts for approximately one-tenth of the total EU spending on defence, reflecting Poland's determination to bolster its military capabilities amid growing security challenges. Since the beginning of the war in Ukraine, the European Commission has developed policies aimed at enhancing defence cooperation within the EU. However, the current geopolitical realities necessitate that the EU steps up its efforts in this new institutional cycle to ensure collective security.

To that end, Poland has proposed two key defence initiatives that seek to leverage EU funding effectively. The first initiative is an air defence project called "Spear and Shield," developed in partnership with Greece, which aims to enhance the region's air defence capabilities against emerging threats. The second initiative, the "Eastern Shield," represents a regional defence project involving the Baltic States, but its strategic importance extends beyond the region, providing added value for the entire EU by strengthening collective defence mechanisms. These initiatives not only underscore Poland's proactive stance in addressing regional security concerns but also highlight the need for enhanced EU support and collaboration in defence projects that align with the continent's broader security objectives. By fostering cooperation among Member States and aligning defence initiatives with EU funding, the speaker argued that EU countries should contribute significantly, like Poland, to the overall resilience and preparedness of European defence in the face of evolving threats.

CONCLUSION

To conclude, the seminar hosted by ARES Group highlighted the challenges and strategic priorities for the European defence industry considering the European Parliament's election and in the context of the war in Ukraine. Key initiatives like EDIP were discussed, emphasising the need for increased collaboration and securing supply chains. However, financing these efforts was the crux of this seminar. The two panels explored strategic defence decisions and the role of sustainable funding, stressing the importance of innovative financial models, private investment, and coordination between the EU and Member States. The debate on EU defence funding raised critical questions about whether Member States should increase national defence budgets or raise EU-wide funding. While some panellists argued that more investment is possible if needed, they emphasised the importance of a holistic approach to ensure defence spending aligns with broader social and economic priorities. Concerns were raised about potential disparities among Member States in reaching the 2% GDP defence spending target. The discussion also highlighted the need to focus on efficient production and realistic implementation rather than simply increasing budgets. Lastly, experts discussed Ukraine's integration into the European defence framework. The discussions underscored the need for long-term vision, regional cooperation, and the importance of securing Europe's defence autonomy amid evolving threats.

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