

Strategic competition: Toward a genuine step-change for Europe's defense industry?

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Abstract

Since 2016 the European Union has embarked on a step-change in the way it financially supports and incentivizes defense-industrial cooperation. The year 2022 will go down as another important moment in this process with the EU announcing a series of measures, such as joint defense procurement and joint planning and programming. Russia's war on Ukraine has only underlined the importance of such steps, but it has also exposed the vulnerabilities of the European Defense Technological and Industrial Base. This article provides an account of the development of EU defense-industrial policy since Russia's war on Ukraine and it critically engages with some of the challenges that have emerged for Europe's defense industry, EU Institutions and EU Member States. In so doing, the article asks whether the war on Ukraine will lead to a genuine step-change in EU defense-industrial cooperation.

The EU's Strategic Compass is the first time the Union and its Member States have produced an all-encompassing security and defense strategy.¹ The Compass, which can be likened to an EU version of France's *Le Livre Blanc* or Germany's *Weißbuch*, brings together the EU's operational, capability and industrial ambitions in a single document. By comparison, the 2003 European Security Strategy did not refer at all to defense-industrial issues, and the 2016 EU Global Strategy merely referred to the importance of the defense sector. While it is true that the 2013 European Council special summit on defense—the first of its kind in the EU's history—called specifically for Europe to develop “a more integrated, sustainable, innovative and competitive defense technological and industrial base to develop and sustain defense capabilities”², the European defense sector has tended to be treated as a sectoral policy area best dealt with by European Commission communications and European Defence Agency studies and papers. Thus, the way in which the EU Strategic Compass integrates defense-industrial matters into the EU's broader security and defense interests and objectives is somewhat of a watershed moment—at least in terms of how the narrative of EU security and defense is framed.

In addition to the Strategic Compass, however, the European Commission has maintained its momentum in defense-industrial matters. Building on the 2016 European Defence Fund (EDF), which is now investing roughly EUR 1.5bn a year into defense research and prototyping, the Commission has announced its intention to create two new defense-industrial policy tools. First, to respond to the war on Ukraine and to assist Member States replenish their armaments inventories, the Commission has proposed a short-term European Defence Industry Reinforcement through a common Procurement Act (EDIRPA) that will invest EUR 500mn from 2023–2025 to help fill critical capability gaps. Second, beyond the EDIRPA the Commission wants to create a European Defence Investment Program (EDIP), which will see an undisclosed amount of money go toward joint common armaments procurement. Thus, beyond strategy papers the EU is seeking to make a tangible difference to the European Defence Technological and Industrial Base (EDTIB).

¹ Council of the EU (2022a).

² European Council (2013, p. 7).

This article aims to analyze the defense-industrial implications of the Strategic Compass and the so-called “Versailles Agenda”, which gave political impetus for initiatives such as the EDIRPA and the EDIP following a meeting of Heads of State and Government in Versailles on 10–11 March 2022 to discuss Europe’s response to the war on Ukraine. It does so by asking whether the EU’s defense-industrial policy efforts since the war on Ukraine point to a genuine step-change for the EDTIB. It does this by first detailing the defense-industrial provisions of the Strategic Compass and critically engaging with them. The article then provides an analysis of some of the challenges facing the Union in developing policy related to common and joint armaments procurement and ensuring its strategic autonomy in defense. In so doing, the article draws on the consequences of Russia’s war on Ukraine for Europe’s defense industry.

The European Union has embarked on a step-change in the way it financially supports and incentivizes defense-industrial cooperation. Russia’s war on Ukraine has exposed the underlying fragilities of Europe’s defense market and underlined the importance of a series of measures, such as joint defense procurement, planning, and programming. However joint defense funds are too low and hampered by disagreement over economic policy, and whether the Union should be able to collectively borrow off international capital markets for defense. In fact, the move towards common defense funding and planning may be too soon given that funding of defense research has only just begun. Further challenges are a reluctance to upset the transatlantic status quo and the need for Europe to match international subsidization of other growth technologies.

The strategic compass and defense investment

The Strategic Compass is the first EU strategy document that comprehensively draws together all strands of EU security and defense. In this sense, the Compass can be seen as somewhat of a milestone in the way the Union thinks about its security and defense. The Strategic Compass is the culmination of a process that began in the 2010s where the EU started to more comprehensively define its security and defense in terms of operations and missions, capability development, and the defense industry. Until at least the dedicated European Council Summit on defense in 2013, these aspects of EU security and defense were separated—albeit artificially—on the basis of policy and legal competences that derive from the EU Treaties. For example, EU operations and missions have been seen as an intergovernmental policy domain and so dominated by the EU Member States, whereas defense-industrial questions increasingly fell under the responsibility of supranational bodies such as the European Commission.

Therefore, in a sense, the Strategic Compass was a way of creating an overarching narrative for EU security and defense that overcame the long-standing, but artificial, separation between operations, capabilities, and industry. This itself is an interesting development that, at least in theory, can be interpreted as a way of “re-constitutionalizing” EU security and defense policy without rewriting the EU Treaties. However, in reality the situation is different as the Strategic Compass has done little to re-engineer the governance of defense-industrial matters at the EU level.³ Thus, although the European External Action Service were responsible for drafting the Compass, and while the High Representative/Vice-President of the European Commission drives forward the deliverables contained in the document, it is the European Commission that is effectively in charge of defense-industrial policy.⁴

The European Commission has emerged as an important actor in Europe’s defense industry, not least because a number of larger EU Member States have encouraged such a role. Today, the Commission is home to a dedicated Directorate-General for Space and Defense Industries (DG DEFIS), which has not only raised the profile of defense in the EU Institutions, but also empowered the Commission with direct management of the EDF and the EU Space Program. In this respect, the Commission is already responsible for managing one of the most potent symbols of the Union’s autonomy—the global positioning system called “Galileo”.⁵ Under the direction of European Commissioner

3 Angelet (2022).

4 Haroche (2020).

5 Fiott (2022).

Thierry Breton, it is also seeking to further develop its role in space and defense with flagship programs such as the secure communications satellite constellation IRIS² that the Union will develop by 2027. Such efforts should be seen in the context of the Commission's wider efforts related to ensuring a supply of critical raw materials⁶ and foreign investment screening⁷, among other initiatives.

It is interesting to dissect the defense-industrial elements of the Strategic Compass. Clearly, responding to the war on Ukraine has become the overarching strategic imperative for the EU, but the Compass makes clear that the Union and its Member States “must resolutely invest more and better in defense capabilities and innovative technologies [and the EU] must be bolder and faster in filling critical capability gaps, overcoming fragmentation, achieving full interoperability of our forces and strengthening a resilient, competitive and innovative European Defence Technological and Industrial Base throughout the Union”.⁸ In addition, while strategic autonomy is only mentioned briefly in relation to the EU's decision-making capacities, the Compass nevertheless calls for “technological sovereignty in some critical technology areas [while] mitigating strategic dependencies in others”. In this respect, the Compass echoes the Union's growing interest in securing and developing critical technologies and ensuring the resilience of supply chains.

To take stock of the major technological and military trends underway, it is clear that the Union needs to refurbish its capability development processes—as they are perceived as being too cumbersome and complex without necessarily leading to genuine prioritization.⁹ In addition to underlining the importance of evolving the Union's existing capability, planning, and development structures, the Compass outlines key capability priorities until 2030 including: Soldier systems, main battle tanks, patrol class surface ships, remotely piloted air systems, future air combat systems, air defense, secure satellite communications, space tracking capacities, and cyber defense. Beyond simply naming capability priority areas, the Compass lists a series of measures designed to enhance the EDTIB. These include the establishment of a Defense Innovation Hub (HEDI) in the European Defence Agency, the creation of an Observatory on Critical Technologies, the application of the EU's foreign direct investment screening mechanism in the defense sector, calling for more defense spending, and holding an annual defense ministerial meeting on capability development. While such measures are unlikely to alter the deep structural challenges facing the EDTIB today, the Compass will be subject to a yearly review and a European Council summit, which will ensure some degree of political pressure is maintained.

Therefore, we should not view the Strategic Compass as an answer to the challenges facing the EDTIB—it is more of a diagnosis of the problems facing the European armaments sector, rather than the medicine required. In this sense, the Compass even puts its finger on a core problem facing the European defense sector by recognizing that any EU defense initiative must become embedded in national defense planning if it is to have any real effect.¹⁰ Accordingly, this is an explicit admission that EU Member States are still largely responsible for the fragmentation of the EDTIB and that national defense planning may not yet be responsive to EU-wide capability and technological needs. If indeed national and NATO defense planning priorities have traditionally trumped EU needs, it is also interesting to note that the Strategic Compass broadens the meaning of EU security and defense beyond Common Security and Defense Policy (CSDP) missions and operations. Instead, the Compass seeks to re-tool and prepare the Union for an era of strategic competition and geopolitical rivalry where air, space, maritime, and cyber capabilities will be required.

One of the consistent complaints about EU security and defense is that it has too often been focused on modest civil-military missions overseas, and that this has been of little interest to a majority of EU Member States and

6 European Commission (2022a).

7 European Commission (2022b).

8 Council of the EU (2022a, p. 29).

9 Fiott *et al.* (2021, p. 50).

10 Council of the EU (2022a, p. 31).

European industry.¹¹ In many respects, the EU has not even been able to meet its stated capability targets in the CSDP either.¹² By reframing the strategic context to one where the Union must engage in the defense of Europe and to deter external threats¹³, there is more chance that EU Member States will increasingly see their own national defense planning priorities mirrored in EU initiatives and structures. This is more likely to be the case at present given the shift away from predominately crisis management operations (e.g., Europe's military extraction from the Sahel and Afghanistan) toward the defense of Europe (i.e. working with NATO and the United States to deter Russian military aggression). Yet even here we must acknowledge that there "is no golden recipe for moving from national to multinational planning and programming"¹⁴, and that intervening issues such as national industrial politics can also scupper EU-level defense planning.

The Versailles moment?

Even if the Strategic Compass does not in itself fix the deep-seated problems facing the EDTIB, it is noteworthy that it insists on the importance of the EDF and calls for joint procurement and new financing solutions, such as a VAT waiver and a bonus system under the EDF, for jointly developed capabilities.¹⁵ As many scholars have argued, EU-level incentives for defense-industrial cooperation are not only imperative, but also the only realistic way of responding to structural fragmentation in the European defense market.¹⁶ Indeed, even before Russia's invasion of Ukraine on 24 February 2022, the European Commission was delivering on a direct tasking from the European Council (given on 25–26 February 2021) to assess the critical military gaps facing the EU. The ultimate aim was to assess areas where the EU had strategic dependencies in critical technologies and value chains. As a consequence, the Commission's roadmap (presented on 15 February 2022¹⁷) made clear that the Union's dependencies in autonomous systems and semiconductors were particularly acute.

On the very same day, the European Commission also published a communication detailing its overall contribution to EU security and defense.¹⁸ The document was a way for the Commission to officially present its contribution to the Strategic Compass (adopted in March 2022). It came to the conclusions that: More ambitious investments in defense research and capabilities at the EU level is required, joint procurement in defense is essential, national export control practices need streamlining, and that the EU needed to step up its efforts in cyber-defense and space. Taken together, both the communications on critical technologies and the Commission's contribution to security and defense were a step toward defining the agenda of the Versailles Summit, which took place on 10–11 March 2022.

At Versailles, Heads of State and Government had to redouble their efforts on security and defense following Russia's invasion of Ukraine. As leaders acknowledged, "Russia's war of aggression constitutes a tectonic shift in European history".¹⁹ Yet, the Versailles Summit was about more than just Europe's war effort. In fact, the Versailles Declaration underlined the importance of reducing energy dependencies and building a more robust economic base, as well as bolstering defense capabilities.²⁰ There was also a political dimension to the Versailles Summit that should not be overlooked. Indeed, one of the major lessons drawn from the Union's response to the pandemic was the need for collective borrowing in the form of the Next Generation funds. Given that this was the first time in history that the EU Member States had agreed to mutual debt, and that France (a country generally in favor of common borrowing

11 Zandee (2022, p. 2).

12 Major and Mölling (2020, p. 45).

13 Biscop (2021).

14 Zandee (2022, p. 5).

15 Council of the EU (2022a, p. 38).

16 See Bellais (2018); Fiott (2017); Sabatino (2022).

17 European Commission (2022c, p. 5).

18 European Commission (2022d, p. 3).

19 European Council (2022, p. 3).

20 European Council (2022, p. 3).

for strategic purposes) held the Council of the EU Presidency, the meeting in Versailles was billed as an opportunity to extend common debt issuance for other strategic areas such as defense and energy.²¹

The Versailles Summit can certainly be viewed as an historic moment that almost certainly rivals the 2013 special European Council meeting on defense. Indeed, whereas in 2013 Heads of State and Government underlined the importance of prioritizing capabilities (such as air-to-air refueling, cyber-defense, drones, and satellite communication), the 2022 Versailles Declaration set a pathway toward developing capabilities jointly at the EU level. Despite suffering the consequences of the Covid-19 pandemic, at Versailles the EU turned toward a more robust pursuit of bolstering defense capabilities, reducing energy dependencies, and building a more robust economic base. Interestingly, the defense sector was seen as a fully integrated part of the Union's overall response to Russia's aggression. This included another pledge to substantially boost defense expenditures, further stimulate collaborative defense investments, invest in strategic enablers, and to strengthen the EDTIB.²² On this basis, the Versailles Declaration tasked the European Commission and the European Defence Agency (EDA) to provide an analysis of defense investment gaps in the EU and to create new financial tools to help incentivize EU-level collaborative investments in capabilities.

The European Commission and the High Representative of the Union for Foreign Affairs and Security Policy / Vice-President of the Commission (HR/VP) followed up on this tasking with a joint defense investment gaps analysis on 18 May 2022.²³ Although this analysis did not reveal anything new in terms of the challenges facing the EDTIB, it did put into sharper focus the more immediate need to replenish stockpiles of ammunition and munitions, phase out Soviet-era legacy capabilities, and invest into a multilayer air and missile defense system. For the longer term, the analysis called for greater collaborative investments in remotely piloted air systems, air-to-air refueling, air defense, multi-role fighter aircraft, main battle tanks, armored fighting vehicles, frigates, submarines, patrol corvettes, satellite communication, military mobility, and cyber-defense capacities. A close reading of the EU's efforts since February 2022 will reveal that this list of capability gaps simply mirrored those already known to both governments and observers.

However, where the gap analysis came into its own was in its proposal for joint defense procurement. Not only did the Commission and the HR/VP immediately call for the establishment of a Defense Joint Procurement Task Force²⁴, but they also tabled two new financial instruments designed to reinforce the EDTIB. First came the EDIRPA, where the Commission signaled its intention to invest EUR 500mn from 2023–2025 to finance collaborative purchases of ammunition, munitions, and other military equipment. Second was the EDIP, which is seen as a longer-term replacement of the EDIRPA beyond 2025. The EDIP, which presently has no financial envelope and still needs to be negotiated with Member States, seeks to help the EU develop projects of major strategic relevance. However, what is interesting and bold here is that the Commission has not simply sought to finance new capabilities beyond the EDF. Instead, it has called for a new approach to EU defense investments that includes support for maintenance, repair and overhaul (MRO).²⁵

In fact, what is most of note in the new approach outlined in the defense investment gap analysis is the space given to the question of “programming and procurement”. It is clear from the analysis that the Commission and HR/VP do not believe that joint defense procurement can sustainably occur without more collaborative defense planning. As it states, as “Member States will start adapting their planning processes to take into account the new security landscape,

21 Smith-Meyer (2022).

22 European Council (2022, p. 4).

23 European Commission and HR/VP (2022).

24 European Commission and HR/VP (2022, p. 9).

25 European Commission and HR/VP (2022, p. 10).

it is paramount to set-up a more structured approach—a joint EU strategic defense programming and procurement”.²⁶ Should EU Member States agree to more EU level defense programming, this would be nothing short of a Copernican moment in EU security and defense. As the 2022 Coordinated Annual Review on Defense (CARD) report makes clear, “national defense planning remains mainly focused on repairing the past through satisfying urgent and previously deferred requirements, rather than winning the future by investing in innovative, and possibly common capabilities”.²⁷ Breaking this traditional pattern of behavior, however unexpected, would certainly unlock greater potential for the EDTIB.

A response to deep-seated challenges?

Sceptics of the EU's recent push for a more effective European defense industry may point to countless past statements on the need to support the EDTIB. As one Commission communication from as early as 1996 made plain, “the state of health of the defense-related industries is such that unless action is taken in time, there is a danger that whole sectors of the economy involved in defense-related activities could disappear”. This is tacit proof that the challenges facing the European armaments sector have not just emerged on the back of Russia's war on Ukraine. It is also evidence that efforts since 1996 have not really led to any tangible success—otherwise there would be no need for all of the initiatives developed since the Versailles Summit. Accordingly, the past three decades could be seen as a wasted opportunity and the war on Ukraine has dramatically exposed the extent of Europe's armament challenges; production capacities are low for even basic material such as ammunition, and weapons exports rather than European made solutions are favored. In short, there are doubts as to whether the latest round of EU defense-industrial initiatives will overcome the deeply ingrained differences of interests and strategic outlook between EU Member States.

The war on Ukraine's increased demand for military equipment in Europe has led to several European defense manufacturers reporting difficulties in meeting government demands. The combination of high commodity prices because of the Covid-19 pandemic, and a need to reorient supply chains after the sanctions imposed on Russia, has meant that many European contractors have been unable to increase production capacity rapidly enough. The European defense sector has been used to a situation of modest demand, relatively low unit numbers per system, and long lead times for development. This was accepted in the post-Cold War era where firms not only downsized or merged but were driven by a need to reduce procurement costs, price competition, a search for export markets, and greater links between commercial and defense business. The war on Ukraine imposes a substantially different paradigm, where high ammunition usage rates and off-the-shelf military equipment (e.g., drones) are making their way to battlefields. As has already been remarked by commentators, Europe must prepare for a wartime economy rather than for a continuation of a relatively benign strategic outlook.

In this respect, the proposed EDIRPA is unlikely to make much of a difference to the manufacturing capacities of defense firms in Europe. To be clear, more demand and clear priorities are to be welcomed by industry, but the structural issues facing the industry will take more time and resources—and the time-limited EDIRPA worth EUR 500mn is a very modest contribution. In any case, we have already seen industry itself adapt to the new strategic reality. For example, Rheinmetall (Germany) has already acquired Expal Systems (Spain) for USD 1.24bn to enhance their production capacity of artillery and mortar ammunition. State-owned conglomerates are also having to adapt to increased demand, with ROMARM recently announcing that it would invest in new and more energy efficient manufacturing equipment to offset the additional costs of high energy prices and outdated manufacturing technology.

Furthermore, the assumption that defense-industrial cooperation is a silver bullet for the EDTIB can also be challenged, as the principle of *juste retour* may conspire to lead to additional costs; as was the case with the A400M,

26 European Commission and HR/VP (2022, p. 10).

27 European Defense Agency and EU Military Staff (2022, p. 2).

the Tiger helicopters, or the FREMM frigates, which are all symbols of European defense-industrial cooperation. In this sense, it is positive that the governments of France, Germany and Spain have agreed to further develop the Future Combat Air System (FCAS) by unlocking EUR 3.2bn for the next phase of the program that should eventually lead to a first test flight in 2028. As the major weapons system program among EU Member States, the FCAS is an important test case in how far governments have altered how they balance *juste retour* with the need to produce a sovereign European military capability.

Yet the chronic under-investment in defense over the past three decades, and the inability to consistently develop a European approach to capability development, has taken its toll on the EDTIB. Russia's war in Ukraine, for example, has led European governments to rapidly fill capability gaps through off-the-shelf solutions. In August, Poland signed a USD 5.8bn contract with South Korea for 180 K2 tanks, howitzers and 48 light FA-50 fighter aircraft. Due to the lack of a credible European alternative, Germany has also approved a EUR 10bn contract for 35 nuclear weapons ready F-35 stealth jets from U.S. producer Lockheed Martin to be able to uphold its role in NATO's nuclear sharing agreement. Yet questions have been raised about whether the EUR 100bn "special fund" announced by Chancellor Scholz in late February 2022 for Germany's armed forces can contribute to an era-defining reordering of the European defense sector. Indeed, only a small proportion of the special fund appears to be dedicated to European armaments programs such as the FCAS. Taken together, Europe's initial response to the war on Ukraine may have actually increased its strategic dependencies on external partners.

Clearly then, the EDIRPA and EDIP are likely to have a minimal impact on the current needs of the European defense sector. Even the EDF is unlikely to be able to substantially address the pressing needs of the defense sector in Europe. Thus, the Union's recently agreed defense-industrial initiatives should be seen as a part of a structural reshaping of the European defense sector, the benefits of which may pay off in a decade or two—perhaps long after the war in Ukraine has ended. Nevertheless, what is being proposed at the EU level—joint defense procurement, programming and planning—is extremely sensitive and difficult for all Member States to swallow. Any structural reshaping of the European defense market is bound to meet resistance by governments. The first major hurdle is ensuring that there is enough financial firepower in the EDIP moving forward, but this is a major point of contention between Member States. In fact, in some respects the EDIP could be emblematic of the disagreement between European states on the issue of common debt issuance. As we have seen, the Versailles Agenda failed to build on the common debt paradigm, introduced during the pandemic, in areas such as energy and defense.

One logic sees the need to replicate the EU's behavior during the pandemic, with collective borrowing managed by the Commission for the benefit of all. Another logic is pushing back a major hesitation to collectivize debt for European defense or strategic sectors. As noted, financing under existing tools such as the EDF is already too low, but joint defense procurement speaks to a different order of financial magnitude—without ambition, the EDIP risks being just a good idea on paper but without much effect on the EDTIB. As European Commissioner Thierry Breton has remarked, "the EU instrument on common procurement [presented] in July to reinforce European defense industrial capacities—while an important step—is admittedly of small magnitude in terms of budget [...] we need to put our money where our mouth is and mobilize a much more significant budget".²⁸ With the mid-term review of the Multi-annual Financial Framework (MFF) on the horizon, there are likely to be many political battles ahead on fundamental questions for EU defense—such as whether the EDF should be increased above its current EUR 8bn envelope or whether the EDIP should mirror Germany's "special fund" of approximately EUR 100bn.

Finally, even without debates about the size of the EDF or the EDIP there will be political contestation over the regulatory nature of EU defense-industrial tools. One of the main lines of political friction will be how regulatory changes brought in under the EDIRPA may affect the regulatory lines already taken under the EDF regulation. For

²⁸ Breton (2022).

example, in early December 2022 the Council of the EU agreed its position on the EDIRPA regulation and it called for certain exemptions to the common procurement rules. Specifically, Member States were keen to ensure they can use the EDIRPA to continue to collaborate with non-EU industrial firms and for this purpose at least 70% of the costs of components must come from within the EU. In some cases there will be no EU manufactured alternatives, so the flexibility is warranted. Given that the EDIRPA is only worth EUR 500mn over two years, the financial costs of this approach are negligible. However, if this new approach were accepted by the Commission and European Parliament, it could be used to argue for similar flexibility in the EDIP or to retrospectively reengineer the EDF to allow for the participation of more non-EU based industries. This would raise serious questions about the EU's ambition to ensure the viability of the EDTIB.

Conclusion

An optimistic reading of events since 2016 would argue that the EU has come some way in its defense-industrial ambitions, and that the strategic landscape since the mid-1990s has fundamentally changed for Europe. This is now an era marked by the return of war and shifts in the global balance of power. There can be no doubt that the EDF has marked a paradigm shift in terms of European-level armaments cooperation, even though the EUR 8bn assigned until 2027 is too low. Yet the very fact that the Member States have agreed to finance defense research and prototyping at the Union-level is extraordinary. The same can be said of the steps since the Versailles Summit to develop common EU defense procurement. While more intense negotiations for an EDIP will emerge in 2023, the fact that the EU is entertaining the idea of supporting joint defense procurement through a mixture of financing tools and VAT exemptions is more than noteworthy. Additionally, linking the financing of joint armaments programs with more collaborative defense planning and programming is a potentially revolutionary step forward for the EU.

Yet this article has also highlighted some of the ongoing challenges associated with EU efforts to support the EDTIB. One major issue is the fundamental disagreement over economic policy, and whether the Union should ever be able to collectively borrow off international capital markets for defense. Without such capital, it will be up to EU governments to come up with the additional financial support, but this gives Member States a veto over the ultimate level of EU ambition. The stark reality is that many Member States are still keen to ensure the EU's continued adolescence in defense in order to not fundamentally challenge the transatlantic status quo. With Russia becoming a fundamental threat, many Member States will be reluctant to develop the EDTIB if it means incurring resistance from the United States. This is an understandable, although perhaps short-sighted, approach.

Any move toward joint EU defense procurement and planning is unlikely to bear fruit in the near term, but it is a worthwhile investment for an uncertain future. Here though, we must recognize that the EU is opening itself up to criticism with the various initiatives it is seeking to develop. For example, some may wonder why the Union is moving rapidly toward common defense procurement and planning when it has only just started to fund defense research and capability development through the EDF. This may be a case of the Union trying to run before it can walk. Accordingly, there is a need for more time to promote the relevance and added-value of EU initiatives such as the EDF. Even though time is not on the EU's side in this regard, the forthcoming review of the MFF provides an opportunity for stock-taking the impact of the EDF on the European defense market. Through a convincing analysis of the benefits of the EDF, it may be easier to make a stronger case for the EDIP and associated defense-industrial initiatives.

Ultimately, a core challenge for any coherent EU defense industrial strategy rests on the broader politics of the Union's economy. As an example, we have seen how recent steps by the United States to invest in green subsidies under the Inflation Reduction Act has given rise to a revision of the EU's state aid rules and lent greater weight to common investments in green technology in the EU. Yet again, unilateral actions by the United States have spurred the EU into action to maintain its own economic competitiveness. Such developments have only lent greater weight

to the idea of greater European sovereignty in economic affairs, especially with regard to investments in critical technologies, security of supply and the reshoring of strategic manufacturing capacities. Yet a major question is whether there will be any spillover from this logic from the broader EU economy to the defense sector. Given the important technological and industrial linkages between economic sectors in Europe, this would seem an almost natural progression were it not for the continued political fragmentation of Europe.

In this respect, any meaningful and useful EDTIB must proceed from a political bargain between the major defense industrial powers of Europe. A basic, if difficult, question needs to be asked, “What type of defense industry does Europe need in the next few decades?” Of course, any response to this question will include political discussions about the military capabilities Europe requires for the future, but any response will have to contend with financing measures and export rules. Common borrowing for defense is a tall order, but a modest step can already be made by allowing the European Investment Bank to finance common defense capabilities. For exports, European countries will face fierce international competition on export markets. In this sense, any EDTIB will have to be developed with greater domestic demand in mind and not on the assumption that exports will support the EDTIB alone.

Although it is painful to admit, Russia’s war on Ukraine has provided the EU with an opportunity to rethink and reorganize its defense market. Issues such as security of supply, armaments production, critical technologies, arms transfers, and more have been put under the spotlight as Europeans move to assist Ukraine. The war has exposed in the starkest terms the underlying fragilities of Europe’s defense market. While no one can predict how the war will end, and without profiting from the misery of the conflict, Europe may only have a limited period of time to seriously reorganize and consolidate the EDTIB. Should the war on Ukraine end anytime soon, then European politicians may seek to downplay this need. Doing so, however, will only help to bury the very structural issues that would weaken Europe in case of any future war in Europe or beyond.

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