



13/2024

28/02/2024

David Ramírez Morán

## Defence capabilities provision in the European Union

### Defence capabilities provision in the European Union

#### Abstract:

The market and the industrial base of defence technologies in the European Union are complex issues. They require matching the sovereignty of Member States with the particularities of very specific products that respond to needs of a strategic nature. The policies put in place by the European Union promote international collaboration. However, national interests continue to affect both the requirements for the systems as well as the constraints on which suppliers can develop them to a large extent. The EU continues to work on the development of the single market and seeks to ensure that this sector also benefits from its advantages. To this end, it continues its monitoring on the activity of the market and keeps proposing measures to support the industrial base. States must assess and implement these measures and adapt their industrial base to meet national needs, achieve greater efficiency of investment and encourage the necessary collaboration necessary for the sector to achieve an integrated position of relevance in the geopolitical environment.

#### Keywords:

European Union, capacities, industrial policy, efficiency.

\*NOTE: The ideas contained in the *Analysis Papers* are the responsibility of the authors and do not necessarily reflect the views of the IEEE or the Ministry of Defence.

## Obtención de capacidades para la Defensa en la Unión Europea

### Resumen:

El mercado y la base industrial de tecnologías de defensa en la Unión Europea son cuestiones complejas. Requieren conjugar la soberanía de los Estados miembros con las singularidades de unos productos muy específicos que responden a necesidades de naturaleza estratégica.

Las políticas implantadas por la Unión Europea promueven la colaboración internacional. Sin embargo, los intereses nacionales siguen afectando en gran medida tanto a los requisitos de los sistemas como a las limitaciones de qué proveedores los pueden realizar.

La Unión Europea sigue trabajando en el desarrollo del mercado único y trata de que este sector también se beneficie de sus ventajas. Para ello, sigue vigilando el funcionamiento del mercado y proponiendo medidas de apoyo a la base industrial.

Los Estados deben evaluar e implantar estas medidas y adecuar su base industrial para satisfacer las necesidades nacionales, conseguir una mayor eficiencia de la inversión y fomentar la colaboración necesaria para que el sector alcance una posición integrada de relevancia en el entorno geopolítico actual.

### Palabras clave:

Unión Europea, capacidades, política industrial, eficiencia.

### How to cite this document:

RAMÍREZ MORÁN, David. *Defence capabilities provision in the European Union*. IEEE Analysis Paper 13/2024.

[https://www.ieee.es/Galerias/fichero/docs\\_analisis/2024/DIEEEA13\\_2024\\_DAVRAM\\_Capacidades\\_ENG.pdf](https://www.ieee.es/Galerias/fichero/docs_analisis/2024/DIEEEA13_2024_DAVRAM_Capacidades_ENG.pdf) and/or [link bie](#)<sup>3</sup> (consulted day/month/year)

## Introduction

The European Union's defence market presents inefficiencies that have been the subject of concern given that its functioning is far from the free market found in other economic areas. This issue has been dealt with in depth over the years without achieving a situation in line with the European Security and Defence Policy that began to take shape in 1999 at the Cologne and Helsinki European Councils.

In 2003, the Commission published a document aimed at improving the capacity to develop a European Security and Defence Policy capable of strengthening Europe's position in the international context<sup>1</sup>. It set out the need for four strands of Europeanisation from the demand side approaches, with the harmonisation of planning and procurement; the supply side, by maintaining a competitive industrial structure in Europe; the market side, by implementing appropriate regulatory frameworks on internal and external aspects, and more efficient procurement rules for Member States and European agencies; and the research side, with intra-European cooperation and the need to improve the coordination and coherence of security research at the European level by exploiting civil-military synergies.

A year later, the *Green Paper* on defence procurement was also published<sup>2</sup>, which denounced the excessive frequency with which Member States made use of what was then Article 296 of the Treaty, now Article 346 of the Treaty on European Union<sup>3</sup>, which in its paragraph 1.b) states:

"Any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the internal market regarding products which are not intended for specifically military purposes.

---

<sup>1</sup> COMMUNICATION FROM THE COMMISSION. *Towards a European Union Defence Equipment Policy*. 11 March 2003. <https://eur-lex.europa.eu/EN/legal-content/summary/towards-a-european-union-defence-equipment-policy.html?fromSummary=19>

Note: All hyperlinks are active as of 26 February 2024.

<sup>2</sup> COMMISSION OF THE EUROPEAN COMMUNITIES. *Green Paper. Defence Procurement*. 23 September 2004. <https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:52004DC0608>

<sup>3</sup> *Consolidated versions of the Treaty on European Union and of the Treaty on the Functioning of the European Union*. <https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:12016E/TXT>

Member States were using this article to limit competition for tenders so that defence and security products would be provided by national industry in a broader sense than the legislator had intended when drafting the rule.

In 2009, the Treaty of Lisbon introduced Permanent Structured Cooperation into the Treaty on European Union, whereby, as part of the Common Security and Defence Policy, the structural integration of the armies of those countries that decide to join the initiative was pursued. This policy is led by the European Council and the bulk of its management falls to the member states, with marginal cooperation from the European Commission. In 2017, ministers signed the notification setting out a list of 20 commitments in the areas of defence investment, capability development and operational readiness. 25 of the 26 Member States decided to join, with the exception of Malta<sup>4</sup>.

In 2012, the first steps were taken to be able to use funds from the EU budget to develop research and development programmes in the field of security. It was necessary to assess the feasibility of using common funds for the benefit of all member states on issues that, by the nature of the Union, are the responsibility of the states themselves, such as security. Numerous sticking points were identified, such as the management of intellectual property, the distribution of the workload, the payment of taxes, etc. The pilot programme was a success and led to the introduction of specific lines for security research funding in the Horizon 2020 Framework Programme, which ran from 2013 to 2020.

In the field of defence, the Pilot Project was launched in 2015, which pursued similar aims but focused on defence research. In 2017, in line with the previous initiative, the Preparatory Action for Defence Research<sup>5</sup> (PADR) was launched. 90 million, this budget was spread over the following three years, with €25 million in 2017, €40 million in 2018 and €25 million in 2019. The objective was to obtain and demonstrate the added value of EU-funded technological research in the field of defence.

In parallel with the Preparatory Action, the European Defence Industrial Development Programme (EDIDP) focused on capability development. With a budget of €500 million

---

<sup>4</sup> Permanent Structured Cooperation (PESCO). [https://www.eeas.europa.eu/eeas/permanent-structured-cooperation-pesco\\_en](https://www.eeas.europa.eu/eeas/permanent-structured-cooperation-pesco_en)

<sup>5</sup> <https://eda.europa.eu/what-we-do/all-activities/activities-search/pilot-project-and-preparatory-action-for-defence-research>

over two years, it aimed to foster competitiveness and innovation capacity across the defence industrial and technological base (EDITB)<sup>6</sup>.

The Preparatory Action and the Industrial Development Programme were the precursors to the current European Defence Fund (EDF), which is part of the €95.5 billion multiannual funding framework from 2021 to 2027, Horizon Europe. During the EDF negotiations, an initial figure of €7 billion was discussed, rising to €13 billion and eventually reduced to €8 billion. 1.1 billion on average per year is a boost for the initiative, although it is a very small percentage of the 250 billion euro budgets that member states implement each year.

Permanent Structured Cooperation (PESCO), together with the European Defence Fund (EDF) and the Coordinated Annual Defence Review (CARD) conducted by the European Defence Agency, are complementary and mutually reinforcing tools. Indeed, PESCO projects have a certain priority in the allocation of EDF funding.

## Where to go

Twenty years later, the contents of the 2003 Defence Equipment Policy Paper are still fully valid as, although many measures along the lines described above have been carried out, there are still inefficiencies that need to be addressed. Indeed, the document on the industrial and technological base again identifies factors that challenge the success of the EDF<sup>7</sup>:

- "whether joint defence development and procurement will be cheaper in practice;
- that Western European *prime* contractors will take all the high-tech work, leaving the other defence industries at risk;
- how to choose the capacity areas to be funded;
- future exports and to which countries jointly developed products may or may not be exported",

again raising doubts as to whether Member States will have sufficient incentive to stop resorting to Article 346 or at least radically reduce the number of cases in which they resort to it.

---

<sup>6</sup> EUROPEAN PARLIAMENT. *The EU's Defence Technological and Industrial Base*. January 2020. [https://www.europarl.europa.eu/RegData/etudes/IDAN/2020/603483/EXPO\\_IDA\(2020\)603483\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2020/603483/EXPO_IDA(2020)603483_EN.pdf)

<sup>7</sup> Ibid.

The European Commission's position is quite clear and advocates new measures aimed at supporting the defence industry through investments in infrastructures of common interest. EU Internal Market Commissioner Thierry Breton proposed extending the EDF up to €100 billion<sup>8</sup> for these purposes.

The conflict in Ukraine has exposed shortcomings in the European defence market. The offer to send ammunition to Ukraine was responded to through three channels, with a first channel inviting member states to send their stocks, followed by a second channel in which member states jointly provide ammunition from the European defence industry, and a third channel to enable member states to replenish their stocks and continue to support Ukraine, for which the EU needs to produce more and faster, which has been accelerated by the Ammunition Production Support Regulation (ASAP)<sup>9</sup>. This measure has €500 million (and was approved in record time in July 2023), which has been dedicated "to ensure the availability and timely supply of ground-to-ground and artillery ammunition as well as missiles [...] by means of the following:

- (a) a financial support instrument for the industrial reinforcement of the production of relevant defence products in the Union, in particular through the supply of their components (hereinafter referred to as 'the instrument');
- (b) the establishment of temporary mechanisms, principles and rules to ensure the timely and durable availability of relevant defence products to their purchasers in the Union"<sup>10</sup>.

On 26 October, the European defence industry reinforcement through common procurement act (EDIRPA)<sup>11</sup> was adopted, an industrial policy instrument aimed at strengthening defence industrial capabilities by supporting cooperation between Member States for the common provision of the most urgent and critical defence products.

<sup>8</sup> WAX, Eddy and KAYALI, Laura. "Breton aims for 'huge' €100B defence fund", *Político*. 9 January 2024. <https://www.politico.eu/article/thierry-breton-edip-sending-1-million-shells-to-ukraine/>

<sup>9</sup> With the last three acronyms corresponding to the English name, *on supporting ammunition production*, but also corresponding to the English phrase *as soon as possible* (ASAP), as soon as possible.

<sup>10</sup> REGULATION (EU) 2023/1525 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 July 2023 on production support for ammunition (ASAP). <https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:32023R1525>

<sup>11</sup> REGULATION (EU) No 2023/2418 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 October 2023

establishing an instrument for the reinforcement of the European defence industry by means of common procurement (EDIRPA). [https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=OJ:L\\_202302418](https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=OJ:L_202302418)

## Measures to come

In his speech at the European Policy Centre, Commissioner Breton introduced defence issues as an area where work is needed, without making distinctions from other areas such as communications, energy or research, in what is a clear message of the importance that defence now has for the European Commission. Specifically on defence, he said: "And of course we also need to consolidate an internal defence market which is a prerequisite for our security. We have started with ammunition for Ukraine. Now we need to broaden this approach to include a large-scale European defence industrial programme capable of supporting the expansion of Europe's industrial base and developing the infrastructure needed to protect threatened areas. Here, again, we need to invest together to act together"<sup>12</sup>.

Breton's proposal for a fund for financing infrastructure of common interest for defence aims to provide a solution to an identified problem that is difficult for the European Commission to solve directly, as it does not have defence competences. Similarly, the reference to infrastructures is important given that the Commission cannot directly finance the development of armaments under the Treaty. It should also combine this initiative with the responsibility placed on the European Council to decide on the industrial model that will develop capabilities.

The proximity of the elections led the commissioner to qualify his words a week later to clarify that this measure, in any case, would not be taken immediately, but towards the end of this year 2024, and that it would already be the responsibility of the next mandate.

The European Commission, as a result of the problems identified for the procurement of defence goods, has proposed the elaboration of a new European Defence Industrial Strategy (EDIS)<sup>13</sup>. The announcement of this new strategy, as well as a new European Defence Investment Programme (EDIP), is expected on 27 February<sup>14</sup>.

It should be borne in mind that both EDIRPA and ASAP present a timetable that would end in 2025, so the new strategy would give continuity to these initiatives, which have

---

<sup>12</sup> Keynote speech by Commissioner Breton - "A Europe that protects its citizens, transforms its economy, and projects itself as a global power" at the European Policy Centre. 10 January 2024.  
[https://ec.europa.eu/commission/presscorner/detail/en/SPEECH\\_24\\_124](https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_24_124)

<sup>13</sup> Commission launches comprehensive consultation process with stakeholders aiming to deliver a European Defence Industrial Strategy. [https://defence-industry-space.ec.europa.eu/commission-launches-comprehensive-consultation-process-stakeholders-aiming-deliver-european-defence-2023-10-27\\_en](https://defence-industry-space.ec.europa.eu/commission-launches-comprehensive-consultation-process-stakeholders-aiming-deliver-european-defence-2023-10-27_en)

<sup>14</sup> CHEE, Foo Yun. "EU's Breton aiming for 3 billion-euro scheme to ramp up defence production". 11 January 2024.  
<https://www.reuters.com/world/europe/eus-breton-aiming-3-billion-euro-scheme-ramp-up-defence-production-2024-01-11/>

arisen out of supervening necessity, but which have proven to be very necessary. Thus, the commissioner expressed his desire to link these initiatives to the European Defence Fund and its 8 billion euros, which should be reinforced in the next term of office.

### **The proposal to build infrastructure to support defence industry**

The implementation of the infrastructure programme would not be free of geopolitical complications between Member States. It is specified from the outset that this joint investment could not be used for the development of capabilities specific to the needs of the Member States, but rather for basic infrastructures that would allow the development of these capabilities, overcoming the shortcomings that the Member States individually are unable to address.

The problems, however, will be intense in the event that this measure goes ahead because, although the developments for its implementation do not provide a direct response to the defence equipment needs of the States, they constitute a support measure for its development that provides an industrial capacity that can catapult the Eurozone's technological capacity for the development of defence capabilities. This technological capability is not isolated, but requires the development of technologies and experience in their application for the development of the infrastructures themselves, while, with their use, it will allow the development within the Union of defence capabilities for which it was necessary to resort to foreign suppliers, in the most convenient case, or to local suppliers that presented problems in tackling programmes of a moderately complex nature.

The increasingly widespread open innovation<sup>15</sup>, and the use of the knowledge developed in all areas where it can be useful, means that countries want to have these infrastructures in their territory, so that the auxiliary industry that supports them can also benefit from the funding that pays for the installation and which in many cases is passed on to local industry. On the other hand, the knowledge acquired can spill over to other technological areas that can take advantage of it.

On the other hand, the development of defence capabilities itself also requires an ancillary industry around enabling infrastructures that provide inputs with lower added value, from

---

<sup>15</sup> Whereby traditional silos of knowledge and research results are opened up so that other sectors can capitalise on the results with new products that exploit them.



raw materials to subsystems for integration into the final system, where proximity can be a factor of interest to speed up the operation of production chains. Therefore, the investments, while pursuing an infrastructure of general interest for all Member States, represent an economic injection for those States in which it is eventually located. The benefits will lead to competition between States for infrastructure on their territory, so that the common investment benefits local industry and, indirectly, contributes to the return of funds provided by the Member States to the European Union for these purposes for their management.

From an economic point of view, the mutualisation of investment among member states, i.e. how much of this funding is attributed to each member state, can also be politicised in the current scenario in which NATO has set the defence investment target for its allies at 2 per cent of GDP. Precisely, the investments in this measure would fall within the capabilities development and production part, the farthest away from the set targets.

### **Of national champions**

The industrial base of self-defence is of vital importance to each member state. The nature of the market makes it highly vulnerable to foreign interference, given its limited economic size, which raises doubts about the strategic autonomy and ability of governments to exercise sovereignty.

The current situation of the European Union's defence industrial fabric is the result of the evolution of companies that in many cases already existed before the creation of the European Union and which, by their nature as leading companies that develop technology, are assets to be protected by governments. In addition to the highly skilled employment they generate, they have the knowledge necessary for the development of capabilities that may not otherwise be accessible, reducing a country's strategic autonomy.

Spain is one of the countries that is struggling to find its place in the European defence market. Spain has on several occasions considered the advisability of creating a so-called "national champion"<sup>16</sup>, which would bring together the main defence industrial assets, as

---

<sup>16</sup> "Murtra positions Indra as "national champion" to "reorganise" the Defence sector in Spain". 27 September 2023. <https://www.infodefensa.com/texto-diario/mostrar/4453330/murtra-posiciona-indra-como-campeon-nacional-reorganizar-sector-defensa-espana>

opposed to the current situation of several independent companies that collaborate or cooperate when necessary. This measure is considered necessary to compete on more similar terms to other European industrial conglomerates bidding for international capability development projects<sup>17</sup>.

It is relevant to note how, in the Munich Security Conference report, France, Germany and Italy are mentioned on more than 10 occasions, compared to more than 30 for the United Kingdom, while Spain, Portugal and other EU member states are not even mentioned. In fact, they do not even appear in the comparative graphs of different magnitudes included in the report<sup>18</sup>.

As mentioned above, size and background can be key factors in obtaining the common funds that the EU can transfer to companies for the common development of capabilities or infrastructure. Likewise, the presence of a national champion can be a deciding factor in the location of an infrastructure in one country or another.

Also, the larger size of the national champion vis-à-vis disjoint firms is a protective mechanism to reduce the risk of acquisition of strategic industrial capabilities by foreign players, which would limit the ability to develop certain types of systems by relying solely on domestic industry.

However, creating a national champion may be a short-term solution as there are several countries that also have a separate defence industry and could undertake a similar exercise. Nor is it certain that the creation of a national champion would provide sufficient competitive advantage to displace the large defence companies of other member states and gain a foothold in the lists of leading security and defence suppliers.

The Spanish defence industry has been subject to a privatisation process that began in the 1980s and which, after several economic crises, has given rise to companies owned to a greater or lesser extent by foreign investors. The question arises as to whether these companies are national industrial fabric or whether they are foreign companies. What is the limit of shareholding that establishes the difference between national industry and foreign industry? Companies providing defence and security products are listed

---

<sup>17</sup> ALVAREZ, Alberto. "Los campeones nacionales y la aplicación del art. 346 de la UE". <https://www.defensa.com/espana/campeones-nacionales-aplicacion-art-346-ue>

<sup>18</sup> "Lose-Lose? Munich Security Report 2024". February 2024. [https://securityconference.org/assets/01\\_Bilder\\_Inhalte/03\\_Medien/02\\_Publikationen/2024/MSR\\_2024/MunichSecurityReport2024\\_Lose-lose.pdf#KOMMS\\_Z9040002\\_MSC\\_Report\\_2024\\_240207.indd%3A.301763%3A5266](https://securityconference.org/assets/01_Bilder_Inhalte/03_Medien/02_Publikationen/2024/MSR_2024/MunichSecurityReport2024_Lose-lose.pdf#KOMMS_Z9040002_MSC_Report_2024_240207.indd%3A.301763%3A5266)

companies and the owners of the shares can be both domestic and foreign. This can lead to disputes when appointing prime contractors for large-scale projects.

## Conclusions

The defence market in the European Union continues to show significant inefficiencies due to competition between the industrial fabrics of the different Member States. One initiative after another has brought to light the problems of achieving efficiency in terms of the preservation interests of national industries, the disparity of requirements in the face of risks that change according to the geopolitical situation of each state, and the existence of superior bodies that impose (NATO) or advise (European Defence Agency) on requirements that must be met in order to have an interoperable capability.

Similarly, when dealing with major projects, their complexity and the existence of a large number of actors involved requires the main contractor to be able to manage this complexity without neglecting the specifications that the user has drawn up in relation to the problem to be tackled. Geopolitics comes into play by introducing disparate and often incompatible specifications, which makes joint development more expensive and complicated.

Once again, the defence sector's demands for greater involvement of the European Commission in issues that are fundamental to the security of citizens are being met with initiatives. However, they do not address the underlying problem that can be associated with a lack of confidence in the European ecosystem when it comes to strategic capabilities or a protection of the national industrial fabric over the general interests of a free and open market that allows for competition, lower costs and greater efficiency of investment. The European Commission is trying to extend its EU industrial policies, which have worked in many other areas, to an area in which it has no competence and where the preservation of sovereignty by governments is a strategic issue.

Only the urgency of the ongoing conflicts and the existence of supervening situations such as the pandemic and its effects on the supply chain have led to drastic measures being taken to address issues that had been identified many years ago.

*David Ramírez Morán\**  
IEEE Senior Analyst  
[@darammor](#)