

# FUNDING WEAPONS TOGETHER (OR NOT)

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## How to pay for European defence

by

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Three years into Russia's full-scale war of aggression against Ukraine, the EU and its Member States are undertaking the largest rearmament effort since the 1950s. Defence budgets are up across Europe, armaments factories are expanding, and new ones are being built. At the same time, US President Donald Trump is openly questioning core tenets of the transatlantic alliance and demanding much higher European defence spending. With threats mounting on all fronts, two things are clear: European countries need to take more responsibility for their own security, and this will require substantial funding. According to the European Commission, Europe requires an additional €500 billion in defence investments over the next decade, while Defence Commissioner Andrius Kubilius wants €100 billion to be allocated to defence in the EU's 2028–2034 budget<sup>(1)</sup>. The urgent question is what the EU can and should do in this new setting.

This Brief examines the question of how to fund European defence. Less US involvement in European security means the EU and its Member States must ramp up armaments production while simultaneously advancing the innovation, research and development of future weapon systems. This will require industries to retool their business models and Member

### Summary

- › Europe needs to take more responsibility for its own security. While EU Member States have made substantial new resources available for European defence, and European defence companies are thriving, more needs to be done.
- › National defence spending will likely continue to rise but there is also growing political support for higher EU-level spending on defence. The Commission is calling for €100 billion to be allocated in the next Multiannual Financial Framework (MFF). Options include increased national contributions, reprioritisation within the existing budget, joint EU borrowing or a dedicated Defence Bank.
- › If more EU-level funding becomes available for defence, the bloc should prioritise dual-use strategic enablers that most individual Member States cannot afford on their own. These capabilities are essential for a more strategically responsible EU.

States to reform their defence procurement and acquisition processes. The EU can play a decisive role in this endeavour. Commission President von der Leyen has repeatedly called on the EU to assume 'strategic responsibility' in defence. The EU already supports collaborative defence research and development (R&D) and increasingly the production of ammunition and joint procurement. The next step should be to identify, develop and fund capabilities of common interest at the European level – capabilities that individual Member States cannot achieve on their own.

## IF I ONLY HAD A LITTLE MONEY...

During the Cold War, most European countries including Germany, France and the Netherlands, spent around 3–4% of GDP on defence. Some countries like Poland and the Baltic republics, but also Greece, are now at or above those Cold War levels. Others, like the Nordic countries, are fast catching up. Yet others are still far behind. In 2024, the 27 EU Member States spent an estimated €326 billion on defence, representing 1.9% of GDP. This was a 17% increase in real terms from the year before and follows on a previous 10% increase in 2023, and a 6.6% increase in 2022<sup>(a)</sup>. The European Defence Agency (EDA) assesses that the ten-year upward trend in EU defence spending will continue, with an expected increase of more than €100 billion in real terms between 2021 and 2027.

This rise in defence spending is primarily driven by purchases of weaponry, but with countries around the world rapidly arming, prices are high. Investments by the EU27 in new armaments rose from €59 billion in 2021 to €102 billion in 2024, hitting a record of more than 30% of total defence expenditure<sup>(b)</sup>.

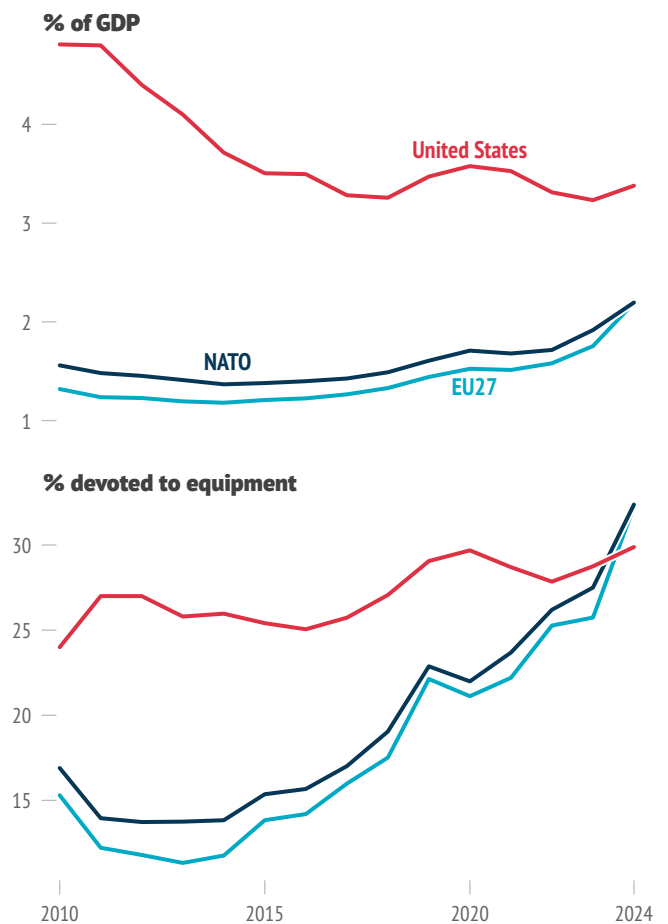
The EU is contributing too, but on a very, very small scale in comparison to Member States' defence spending. The EU budget for defence has grown from a modest €1.5 million pilot project in 2015 to €7.3 billion for the European Defence Fund (EDF) in 2021–2027. An additional €1.76 billion was found for military mobility in the EU budget and another €810 million for expanding ammunition production and subsidising joint procurement by Member States. The European Defence Industry Programme (EDIP), which complements the European Defence Industrial Strategy (EDIS), comes with a proposed €1.5 billion budget for the years 2025–2027<sup>(c)</sup>. In total, some €11–12 billion will have been dedicated to defence from the common EU budget for 2021–2027.

There is now growing political support across the Union for significantly more EU-level spending on defence,

including from formerly more 'frugal' countries like Denmark. As previously mentioned, the Commission is calling for €100 billion to be allocated to defence in the next EU budget (2028–2034). In comparison, the Common Agricultural Policy (CAP) has a budget of €386.6 billion for 2021–27. Some Member States are however reluctant to increase national contributions to the EU budget. Reprioritising within the existing budget is another option, or alternatively 'repurposing' unspent cohesion funds.

An alternative approach could involve joint EU borrowing for defence investments, as proposed by French President Emmanuel Macron and EU HR/VP Kaja Kallas. While this idea is gaining traction, it remains controversial – and a single Member State's veto could block it. So, another proposal is to establish a coalition of willing Member States, creating a special purpose vehicle (SPV) or dedicated 'Defence Bank' which could issue bonds backed by guarantees from participating

**On the up**  
Defence expenditure



Data: NATO, 'Defence Expenditure of NATO Countries (2014–2024)', 2024; NATO, 'NATO publishes defence expenditures data for 2014 and estimates for 2015: Financial and Economic Data Relating to NATO Defence', 2015; EDA, 'Defence Data', 2024; IISS, 'The Military Balance: The Annual Assessment of Global Military Capabilities and Defence Economics', 2024.

NB: figures for 2023 and 2024 are estimates; 2010–2013 aggregates do not include data for Finland, Montenegro and North Macedonia; 2024 aggregates do not include data for Malta.

Member States, and partners such as Norway and the United Kingdom, but not the EU itself<sup>(6)</sup>.

But the question is not only about money. Defence spending is up almost everywhere and may continue to rise, as discussions within NATO suggest. There are also few indications that the European defence industry at large faces short-term funding shortages, as confirmed by revenue data and interviews with industry<sup>(6)</sup>. All-time high share prices of European defence companies indicate that the market expects growth to continue<sup>(7)</sup>. The immediate challenge is more about production capacity. The Netherlands for example could not spend €750 million in aid for Ukraine in 2024 because of the tight global market for defence equipment<sup>(8)</sup>. A study by the International Institute for Strategic Studies (IISS) of equipment contracts signed by European NATO allies between February 2022 and September 2024, valued at more than US\$180 billion, reveals that an estimated 52% was spent on European systems<sup>(9)</sup>. Accordingly, European defence companies, and especially land armaments and missile producers, report exceptionally strong order books and high 'book-to-bill ratios' – the value of incoming orders and revenue from deliveries. Dormant production lines have now been restarted, and new ones built or announced across Europe, e.g. for ammunition (BE, BG, CZ, DE, DK, EE, EL, FI, FR, HU, LV, LT, NO, PL, RO, SE, UA, UK), armoured vehicles (BG, HU, IT, LV, PL, SE, UA) and artillery (DE, CZ, ES, FI, FR, PL, RO, SE, SK, UA, UK)<sup>(10)</sup>.

And it is not only big companies that are doing well. In Italy, for example, small, family-owned defence companies are reportedly more profitable and growing faster than the large ones<sup>(11)</sup>. Small and medium-sized (SME) drone companies around Europe, including Ukraine, are benefiting from spending by the international drone coalition led by Latvia and the United Kingdom to the tune of €1.8 billion, and by initiatives like the €400 million drone pledge by the Netherlands<sup>(12)</sup>.

In addition, the European Investment Bank (EIB) expanded its support to security and dual-use goods to €8 billion for 2021–2027, and in May 2024 waived the requirement that projects must generate revenue from civilian use<sup>(13)</sup>. To support defence SMEs, the EIB has also changed its eligibility criteria to improve SME access to venture debt financing and equity investments. But despite good conditions for borrowing for dual-use projects since 2018, the demand for EIB loans is not very high, with billions of euros still available<sup>(14)</sup>. Some may argue that the lack of industry interest is because the EIB does not support weapons or ammunition production, but a project can qualify if it can show 'at least one current or potential civilian application'. This means that there are plenty of defence

projects that could be financed by EIB, including R&D, infrastructure and military mobility initiatives<sup>(15)</sup>. The reinforced partnership between the EIB and EDA announced in October 2024 will help in identifying more potential projects<sup>(16)</sup>.

## ALL THE THINGS I COULD DO...

If there were more EU money, what would we spend it on? Defence projects 'of common European interest' have been mentioned by the Commission, including 'shields' for air defence, cyber, and Eastern borders. The upcoming EU White Paper will offer more concrete ideas and examples for these 'flagship' defence projects of common interest and outline how to acquire them.

Of course, there are plenty of already agreed European priorities. The latest Coordinated Annual Review on Defence (CARD) report, approved by EU Defence Ministers in November 2024, identifies collaborative opportunities based on Member States' plans. Notably, groups of EU defence ministers have agreed to cooperate on four capabilities: Integrated Air and Missile Defence (18 MS); Electronic Warfare (14 MS); Loitering Munitions (17 MS); and European Combat Vessels (7 MS)<sup>(17)</sup>. EU-level funding could transform these opportunities into real capabilities. NATO in turn is calling for 49 new combat brigades (each composed of around 5 000 troops) according to reports on the alliance's new Minimum Capability Requirements<sup>(18)</sup>. With 23 out of 27 Member States in NATO, EU-level funding could contribute to buy and produce the 1 500 tanks and 1 000 artillery pieces needed.

As noted, there are plenty of ways to spend EU-level money. But to strengthen the case for more money, the EU needs to show that EU-level spending is also better spending<sup>(19)</sup>. The EDF is the EU's largest defence instrument to date, making the Union a significant funder of defence research since 2021. The EDF is undergoing an interim evaluation, and results are not yet available. Open defence industry input however mentions positives like increased cross-border cooperation and its role in forging new partnerships. But industry and think-tank experts are also calling for a larger, more focused budget that is better aligned with Member States' procurement needs<sup>(20)</sup>. The other two major EU defence industry tools are the Act in Support of Ammunition Production (ASAP) and the regulation to incentivise joint procurement (EDIRPA). While official evaluations will not be available for some time, the €513 million shared by 31 projects under the ASAP are already credited with having contributed to increased European production of ammunition and missiles<sup>(21)</sup>.

# THE BRUSSELS EFFECT

European Commission President von der Leyen has repeatedly called on the EU to take ‘strategic responsibility’ in defence, stressing the need to identify ‘flagship capabilities at European level’ that are of common interest, ‘European by nature’ and ‘beyond the capacity of individual Member States’<sup>(22)</sup>.

The EU could play a central role in ensuring stable and long-term funding of European defence by increasing its spending on defence R&D and key dual-use strategic enablers such as secure satellite communication, military mobility infrastructure, and Airborne Early Warning & Control (AEW&C) systems. These systems are all developed and produced in Europe but are too big for most individual Member States to acquire on their own<sup>(23)</sup>. These capabilities reflect lessons from the war in Ukraine, align with Member States’ existing defence plans and are in line with NATO priorities. Funding them would not only strengthen the European defence industry but also empower the EU to take on greater strategic responsibility.

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