

DISCUSSION NOTE

Informal meeting of Ministers responsible for Competitiveness (Internal Market and Industry), 3 February 2026

Strengthening the European Defence Technological and Industrial Base

Europe faces a structural industrial challenge. As highlighted in the Draghi Report, global competitors, notably the United States, benefit from defence industrial ecosystems that operate at greater scale and with higher levels of integration, supported by sustained investment and predictable demand. The United States alone spends more than twice as much on defence as all EU Member States combined, with an R&D budget roughly ten times higher than Europe's [1]. EU Member States have responded to the deteriorating security environment by increasing defence spending to €343 billion in 2024. However, the effectiveness of this expenditure in generating long-term industrial value varies significantly, reflecting differences in procurement approaches, investment horizons, and the balance between operational delivery and industrial investment [2]. Maximising "value for money" therefore depends not only on budget levels, but on how spending is structured to support production capacity, innovation, and supply-chain resilience, rather than being absorbed by overhead, fragmentation of demand, or short-term solutions.

Recent analyses, including the European Defence Industrial Strategy (EDIS), indicate that a substantial share of defence procurement has been sourced from outside the EU since 2022, although the precise magnitude varies by methodology and data source [3]. While many European armed forces already rely on standardised platforms, divergences in national requirements, upgrade pathways, approval procedures, and sustainment arrangements continue to limit the ability of European industry to fully capture the industrial benefits of increased defence spending. As a result, a significant share of investment-related spillovers, including production scaling, learning effects, and supply-chain development, is not fully retained within the EU. The adoption of the European Defence Industry Programme (EDIP) provides an important framework to incentivise cooperation and joint industrial investment at EU level. However, the broader industrial landscape continues to be characterised by largely uncoordinated national planning and procurement decisions. Hence, it should be closely observed how EDIP helps overcome these uncoordinated practices, as they limit demand predictability and investment certainty for the industry, reducing the overall industrial impact of rising defence budget.

Looking ahead to the next Multiannual Financial Framework, the European Competitiveness Fund creates a unique opportunity to integrate defence, dual-use, and industrial policy under a single strategic roof. The central obstacle to competitiveness is the lack of scale. European demand is split, resulting in short production runs, high unit costs, and unpredictable demand signals that discourage capital investment. The lack of coordinated procurement and dependence on non-EU suppliers carries

costs ranging from EUR 18 billion to EUR 57 billion (6.5% to 20.5% of all European military spending) annually [7].

Furthermore, Startups, Scaleups and other SMEs face an estimated annual financing gap of around €4 billion, which limits the ability of agile dual-use innovators to scale up production or integrate into cross-border supply chains [4]. The new Fund could act as a catalyst to modernise the industrial base and address the critical transition phase between research, prototyping, and industrial-scale manufacturing, enabling Europe's 2500 defence-related SMEs [3] to grow and compete globally.

Finally, industrial resilience depends on closing the divide between civil and defence technologies. The traditional innovation model has inverted, as breakthroughs in areas such as artificial intelligence, quantum technologies, and space are now predominantly driven by the civilian sector, while rigid administrative and regulatory barriers continue to obstruct the effective "spin-in" of these technologies into defence applications [6]. Addressing this gap requires targeted support for testing, certification, and early industrialisation, where many dual-use technologies currently stall.

Success therefore requires more than de-risking investment; it depends on a well-functioning Single Market in which standardisation is treated as a strategic enabler of interoperability, scalability, and reduced external dependency. By harmonising certification processes, technical requirements, and qualification pathways, the EU can offer comparable "plug-and-play" operational utility across Member States, enabling faster deployment and interoperability of European systems and strengthening a genuinely integrated European Defence Technological and Industrial Base, while preserving diversity of industrial actors and national specificities.

Questions for discussion:

- 1. How can the European Competitiveness Fund be structured to drive cross-border defence industrial cooperation, enable European manufacturers to achieve scale and efficiency, and reduce structural dependencies on third countries particularly by strengthening critical sub-component supply, raw materials access, and the integration of civil and defence industrial supply chains?*
- 2. How should EU-level financial instruments be adapted to close the estimated €4 billion annual financing gap faced by European defence industrial actors, especially SMEs and dual-use innovators, in order to ensure that high-potential companies can scale up industrial capacity within Europe rather than being acquired by non-EU investors?*

References

[1] Mario Draghi, *The Future of European Competitiveness*, European Commission, September 2024. [2] European Defence Agency, *Defence Data 2024/2025 estimates*. [3] European Commission & High Representative, *Joint Communication: A new European Defence Industrial Strategy (EDIS)*, JOIN(2024) 10 final. [4] European Commission, *Staff Working Document accompanying the EDIP Proposal*, SWD(2024) 150. [5] Enrico Letta, *Much more than a market: Speed, Security, Solidarity*, April 2024. [6] European Commission, *EU Defence Industry Transformation Roadmap: Unleashing Disruptive Innovation for Defence Readiness*, October 2025. [7] (Centrone and Fernandes, 2024) as cited in the Commission Macroeconomic Report, November 2025.

