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Autonomy and Alliance

Aligning Transatlantic Defense Industries for a New Strategic Landscape



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Introduction

Russia's aggression against Ukraine and the distancing of the Trump administration from its security commitments in Europe have set in motion a groundbreaking transformation in the security and defense space in Europe. Almost all European countries have initiated reforms to their security policies and increased defense spending. With the real prospect of the end of the postwar era, in which the United States served as the leader of the liberal world order and the essential guarantor of European security, Europe must find a new path to ensure its defense.

European defense faces many challenges. These range from market fragmentation and insufficient standardization and interoperability to deficits in critical technologies, strategic enablers, and critical infrastructure protection. Perhaps even more important than operational and materiel challenges are the structure and dynamics of discourse on defense, within national governments and in NATO and the European Union (EU), two organizations in the center of the defense transition now gathering momentum. The debates over strategic autonomy or a European pillar in NATO are crucial to shaping defense initiatives and policies, and to determining their success or failure.

One reality is that years of underinvestment and dependence on U.S. defense capabilities produced significant shortfalls and gaps in European defense structures. The other reality is that Europe cannot secure its defense on its own. A credible European defense ecosystem and a robust and resilient defense industry still require strong U.S.-European cooperation.

This report assesses current efforts in consolidating a stronger European defense base and the debates on how to construct a mutually supportive U.S.-European defense industrial cooperation as Europe assumes greater responsibility for its security and defense.

The report looks first to the EU and NATO responses, laying the groundwork financially and institutionally to begin the process of setting the framework for a European defense industrial base and the challenges facing defense industry actors. The report then focuses on the state of the debate on what the building of a European defense industry would require, the priorities over the shorter- to longer term, and what a modulated transition would mean in building cooperation and complementarity between NATO and the EU to establish a Europeanized NATO. The process will also require strong, sustained U.S.-European defense cooperation, which bestows significant military, strategic, political, and economic benefits for the United States and European countries.

The report makes the case that despite deep fissures in the transatlantic relationship, a defense framework adapted to Europe's current security threats is central to both European and U.S. strategic interests. This will require a managed transition in roles and responsibilities, along with the political will to adapt to a new security relations paradigm. In the long term, Europe must become more self-reliant in providing its defense, from funding streams and joint procurement to the production of defense materiel. The United States and its defense industry actors must work within NATO and with the EU to transition to a reduced yet central and complementary role in the new European defense arena.

The Drivers of Conflict: Russia, Ukraine, and the U.S. Trump Administration

Two major shifts in the European security and defense environment have convinced European leaders of the necessity and urgency to develop a more self-sufficient European defense structure, buttressed by a restructured European defense industrial base. These conflicts have also placed the U.S.-European relationship under intense strain.

Russia's War in Ukraine

Russia's 2022 invasion of Ukraine was a wake-up call for Europe. Responding to the spectrum of threats posed by Russia's war in Ukraine requires a transformation of the European defense architecture. After years of underinvestment and stagnation in the defense realm, Europe is seeing unprecedented surges in defense spending and procurement, though these have exposed severe shortfalls and gaps in capabilities and procurement that will be difficult to close. The war also exposed underlying strains between the United States and its European allies—around burden-sharing, the American commitment to NATO and collective defense, relations with Russia over Ukraine, and the growing sense of transatlantic estrangement.

A Second Trump Administration

President Donald Trump's 2024 election and subsequent actions further strained the U.S.-European relationship. Trump has signaled that the United States expects European countries to assume responsibility for their own defense. This has set Europe on a path towards constructing a more European pillar within NATO. However, Trump's vacillation on America's long-term NATO obligations has contributed to tensions and further burdened transatlantic policy coordination.

On NATO defense contributions and NATO's Article 5, Trump first stated that if NATO's European allies "don't pay, I'm not going to defend them," pivoted to assure U.S. allies at the June 2025 NATO summit that the United States is "here to help them protect their country," and was then noncommittal on Article 5, saying it "[d]epends on your definition. There are numerous definitions of Article 5."[1] Trump's stated aspiration to own Greenland shocked European leaders, and contentious public statements by other administration officials further deteriorated relations between the United States and its European allies and partners.[2] European leaders believe they can no longer depend on U.S. security assurances and are moving to secure a more Europeanized NATO in the face of a less American NATO.

The Response: Laying the Groundwork

Russia's attack on Ukraine and the Trump administration's divisive actions have changed the course of U.S.-European security and defense relations, and their effects continue to reverberate through NATO and its military posture, EU defense policy deliberations, and transatlantic defense cooperation. The war in Ukraine has exposed serious weaknesses and constraints in Europe's defense infrastructure.

In response, European defense budgets are rising as the war in Ukraine and uncertainties about the U.S. commitment to European security drive a broader economic and industrial transformation across Europe. NATO and the EU have moved to meet the demands for building a European defense industry by

adopting strategic plans and policies to increase defense spending and fiscal and institutional initiatives to achieve Europe's strategic aim of institutionalizing a European-based defense and industrial ecosystem.

Financing a European Defense Industrial Base

Defense spending has been an irritant in U.S.-European defense relations for decades, with U.S. administrations regularly warning its European allies of the need to increase defense spending. In the post-Cold War period, defense spending declined from Cold War levels and remained low among NATO European member states. A 2025 European Commission report noted that during this period of Europe's "peace dividend," defense spending had dropped precipitously to 1.1% of GDP in 2014, the year Russia illegally annexed Crimea.[3] At that time, European defense expenditures were at their lowest recorded levels, at €189 billion.[4] At the 2014 Wales summit, NATO set a defense spending goal of 2% of GDP, and defense spending in real terms did rise. By 2021, member states' combined expenditures reached €218 billion, but by early 2022, on the eve of Russia's invasion of Ukraine, only seven of the 30 NATO members had met their 2% defense spending target.[5]

> **"...Europe is ready to massively boost its defence spending. Both, to respond to the short-term urgency to act and to support Ukraine but also to address the long-term need to take on much more responsibility for our own European security."**
>
> President Ursula von der Leyen, European Commission speech, March 4, 2025

Russia's invasion of Ukraine led NATO to revise its Strategic Concept to respond to a new security environment of conventional threats alongside hybrid and transnational threats that have reshaped the modern battlefield. It also drove member states to drastically raise defense spending. From 2021 to 2024, defense expenditures in EU member states rose by more than 30%.[6] At the NATO Vilnius 2023 summit, member states agreed to a Defense Investment Pledge and resolved to maintain the 2% pledge on a lasting basis, also recognizing that future increases in defense spending were unavoidable.[7]

By 2024, NATO member states' collective defense spending reached €326 billion, up from €218 billion in 2023.[8] In 2024, defense budgets continued to rise, with a total defense expenditure for all member states reaching €343 billion—an average of 1.9% of GDP—and with 2025 defense expenditures reaching €381 billion, hitting 2.1% of GDP.[9]

Thus, by 2025, all NATO allies had reached or exceeded the 2% defense spending target, though the distribution among members varied, ranging from Poland at 4.48% to Spain and Portugal at 2%. The data on NATO defense spending per capita show how meaningful the shift in European defense commitment to burden-sharing has been; for the first time in NATO history, a European member state—Norway—spends more per person on defense ($723) than the United States.[10]

At the Hague summit in June 2025, NATO allies stepped up to the challenge set by President Trump and agreed to further raise the defense spending guideline to 5% of GDP by 2035, structured as 3.5% for core military spending (e.g., munitions and weapons) and 1.5% to "protect our critical infrastructure, defend our networks, ensure our civil preparedness and resilience, unleash innovation, and strengthen our defence industrial base."[11]

The 1.5% funding for non-traditional defense is innovative and can improve civil preparedness, strengthen societal resilience, and strengthen critical infrastructure, all which support NATO strategic objectives. It also makes good sense given the Russian use of hybrid warfare tactics. Nevertheless, the term "defense-related" is vague, and observers say NATO must establish clear standards for what constitutes "defense-related" expenditures to avoid encouraging "creative accounting" or political favoritism.[12]

NATO Target of 5 Percent

At the 2025 Hague Summit, NATO member states committed to increasing defense spending to 5% of GDP by 2035:

- 3.5% for "core defense requirements"
- 1.5% for "security-related spending"

Having risen from €218 billion in 2021 to €381 billion in 2025, European member states' defense spending will remain on an upward curve—though again, defense experts emphasize that meeting the current procurement and production demands will require even more financial commitments.[13] Maintaining the level of defense spending required to close the capability gaps will be politically difficult, given competing demands for public spending, especially in states with high deficits.

Institutional Adaptation

NATO. As a military organization, NATO remains the guarantor for European collective defense and deterrence, with members pledged to strengthen their defense capabilities and work together on issues that impact their collective security, such as cyber defense, maritime security, and hybrid threats. NATO is also a political organization that promotes democratic values and provides a permanent structure with highly integrated governance and procedures for its members to consult and cooperate on defense and security-related issues. Institutionally, NATO enables member states to work seamlessly together through its standardization and interoperability, joint procedures, and joint exercises, and it acts as a hub for defense industry collaboration.

NATO's response to Russia's full-scale attack on Ukraine was historically significant, taking quick action to counter the new strategic threat environment. Within months of Russia's invasion of Ukraine on February 24, 2022, NATO presented an updated Strategic Concept at the Madrid Summit in June 2022, its first since 2010. It signaled NATO's return to its original core tasks of deterrence and collective defense.[14] NATO also responded by significantly increasing its troops and forward presence on NATO's eastern flank and in the Baltic states, and by maintaining its political and military support for Ukraine, albeit without direct combat support. Russia's incursion also prompted a historic shift in European security when NATO endorsed membership applications from Sweden and Finland.[15]

Importantly, NATO established a new NATO Innovation Fund (NIF) in 2022, a multi-sovereign venture capital fund of 24 NATO allies, deploying €1 billion to invest in early-stage start-ups developing dual-use technologies such as AI, big data, autonomy, new materials, and bio- and space technologies. Established in 2022, NATO's Defense Innovation Accelerator for the North Atlantic (DIANA) is an official NATO body supported by 32 Allied countries that accelerates early-stage startups with grants. It links start-ups, industry, research, and military applications via mentoring, test centers, and end-users to advance innovative research in dual-use technologies. Through DIANA in 2026, NATO will provide financial support to 150 companies from 24 NATO member states.[16]

At the 2023 NATO Summit in Vilnius, NATO allies agreed on a Defense Production Action Plan, which was updated in February 2025. The need to accelerate NATO's defense industrial capacity and production was underscored at the 2024 Washington Summit when leaders adopted the NATO Industrial Capacity Expansion Pledge to develop a sustainable, innovative, and competitive defense industrial base.[17] In collaboration with the EU, the NATO NIF and the European Investment Fund (EIF) signed a Memorandum of Understanding in 2024 to encourage private capital funds to invest in the defense and security sectors.[18]

European Union. The security environment that emerged in the aftermath of the Cold War prompted a gradual reassessment of the EU's role in defense, culminating in the publication of the 2003 European Security Strategy and the founding of the intergovernmental European Defense Agency (EDA) in 2004. Earlier benchmarks and initiatives sought to boost coordination and align member states' defense planning. For example, the 2007 EDA framework—a step towards fostering a European defense market—set a goal of 35% for collaborative defense procurement projects. Mechanisms designed to expedite collaboration and thus reduce problems of fragmentation, duplication, higher costs, and other inefficiencies already exist. But EDA data from 2020 show that only 18% of total defense equipment procurement among EU member states (€7.9bn) was spent on defense R&D and collaborative procurement of equipment.[19]

Russia's annexation of Crimea in 2014 created new momentum, including the passage of the EU Global Strategy, an important step in calling for a "more credible European defense" and closer coordination in capability development. The Permanent Structured Cooperation (PESCO) was adopted in 2017 with binding commitments to increase R&D and defense investment.[20]

Since the start of the Russian war against Ukraine in February 2022, the framework of EU defense policy has evolved rapidly, politically and institutionally. With the need for Europeans to significantly increase their defense capabilities and production, the EU identified key challenges and outlined measures to guarantee defense readiness and strengthen the European defense industrial base.

In March 2025, European Commission President Ursula von der Leyen announced the publication of a defense package intended to address rising security threats and strengthen the EU's defense capabilities while taking greater responsibility for its own security. Though EU treaties prohibit the use of the EU budget for military expenditures, Europe's defense industry falls under the European Commission's domain primarily through its mandate over the internal market, industrial policy, and research funding. In doing so, President von der Leyen signaled that the EU, through the European Commission ("the Commission"), will become a central player in European defense.[21] The goal: to develop a set of mechanisms to incentivize European firms to invest in the development and production of defense goods in Europe. To accomplish this goal, the initiatives targeted urgent needs, such as increased defense spending, eliminating capability gaps, expanding investment and incentives, and financial and regulatory measures. The question, for the Commission, is whether Europe is "prepared to act decisively" and with the speed and ambition the situation requires.[22]

Increasing Defense Expenditures and Closing Capability Gaps

The **White Paper for European Defence – Readiness 2030** is a roadmap to guide EU member states in building up their defense capabilities in response to the expanding security threats facing Europe. The White Paper presents a new approach to defense, focusing on closing capability gaps and reinforcing Europe's industrial base. Regarded as the EU's comprehensive defense strategy, it provides a framework for the EU's ReArm Europe Plan/Readiness 2030. Both set out the case for massive investment in European defense—to rearm Europe, support Ukraine, build a stronger, more resilient defense industry, and increase defense readiness to deter potential threats.[23]

White Paper: 7 Priority Areas

- Air and missile defense
- Artillery systems
- Missiles and ammunition
- Drone and counter-drone systems
- Strategic enablers and critical infrastructure protection, including space-related aspects
- Military mobility
- AI, quantum, cyber, and electronic warfare

ReArm Europe Plan/Readiness 2030 ("Readiness 2030") outlines a set of financial and legal levers to incentivize increased defense expenditures and support member states' defense investments. The Plan will enable €800 billion in defense investment, through EU-sponsored loans of €150 billion over four years and €650 billion raised by member states through increased defense spending by 1.5% on average. The initiative included the EU Defense Readiness Omnibus, a package of legislative and non-legislative measures to remove legal and administrative obstacles in its regulatory framework that hinder cooperation and a rapid expansion of the EU 's defense industrial base: fast-track procedures, regulatory simplification, procurement reforms, financial access, and industrial support.[24]

Readiness 2030 is structured around five pillars:[25]

1. *Security Action For Europe (SAFE) Loans:* A new instrument, SAFE will provide €150 billion in loans backed by the EU budget and borrowed on behalf of the Commission on capital markets to encourage joint procurement and interoperability. SAFE strengthens the European Defence Technological and Industrial Base (EDTIB) by requiring that 65% of the end product's component costs originate in Europe. European Economic Area and European Free Trade Association (EEA/EFTA) countries, as well as Ukraine, can participate in joint procurement projects through partnerships with EU member states. Other third countries must sign a Security and Defense Partnership with the EU to participate.[26]

2. *National Escape Clause (NEC):* The NEC temporarily loosens the EU's fiscal rules under the Stability and Growth Pact, allowing member states to deviate from existing fiscal rules and exceed the 3% deficit cap to incentivize them to increase total defense expenditure. While the decision to increase defense expenditure under NEC would be taken at the national level, the Commission estimates that an additional €650 billion could be reached by 2029.[27]

3. *Redirection of Cohesion Funds:* This component allows EU budget funds (about one-third), normally directed to help equalize living standards across EU regions, to be used for defense-related projects. The decision to redirect cohesion funds towards defense-related projects will be at the discretion of member states.[28]

European Union Defense Spending Mechanisms

- **SAFE**: €150 billion loan mechanism for defense
- **National Escape Clause (NEC):** Member States can exceed 3% fiscal debt limit to loan 1.5% of GDP annually for 4 years for defense
- **Cohesion Funds**: Member States can choose to use cohesion funds for defense-related projects
- **EIB** offering lending for defense-related projects
- Acceleration of the Saving and Investment Union to mobilize **private capital**

4. *European Investment Bank (EIB):* The EU states its intention to utilize the EIB to identify potential funds for defense investment. The Bank has proposed changes to expand its role in defense lending policy. Already in May 2024, the Bank relaxed its policy of not investing in military products by relaxing restrictions on dual-use investments.[29]

5. *Private Capital:* An important goal for Readiness 2030 is to activate private capital, since access to finance remains a major barrier for smaller companies, even in the defense sector. The EU will advance the European Savings and Investment Union (SIU), a strategic initiative that aims to update the earlier Capital Markets Union (CMU) to unify EU financial markets and thus improve access to financing for firms, especially small- to medium-sized enterprises (SMEs).[30]

In sum, the EU has utilized its financial and regulatory mechanisms to incentivize European companies to invest in defense. Readiness 2030 lays out financial paths to encourage member states to boost their defense spending—through loans, EU budget funds and tools, leveraging financial institutions, and mobilizing the private sector. Of the €800 billion set out in the Plan, only the €150 billion from EU-sponsored SAFE loans is funded by the EU budget. Unlocking the remaining €650 billion will require EU member states to increase their annual defense spending by 1.5% of GDP over four years. The current expansion of EU defense expenditure is dramatic and counteracts years of chronic underinvestment, though sustaining and, if possible, increasing defense expenditure over time remains the core issue.

Enhancing Readiness and Resilience

The **EU Defense Readiness Omnibus**, a legislative package designed to facilitate investment in joint defense production, will facilitate EU defense investments through 2029 by removing legal and administrative hurdles in areas such as "public procurement, permitting, and cross-border cooperation."[31] The **Defense Readiness Roadmap 2030** focuses efforts on enhancing readiness and resilience to fill European capability shortfalls by 2030. It sets a 40% target for achieving joint defense spending by 2027, declares that joint procurement should reach the 35% established target, and defense investment procured from the EDTIB should reach at least 55% of the total investment. Finally, the Roadmap identifies four priority programs that will receive enhanced support: a European Drone Defense Initiative, Eastern Flank Watch, European Space Shield, and the European Air Shield.[32]

Strengthening Financial and Regulatory Measures

The **European Defense Technology and Industrial Base (EDTIB)** refers to the collective, transnational ecosystem of defense companies and state actors in the EU. It was established in 2007 to guide the production and supply of weapons systems needed to augment EU states' military capabilities, and tasked with shifting fragmented national production to a coordinated European system with the purpose of reducing reliance on non-EU suppliers.[33]

European Defense Industrial Strategy (EDIS). Adopted on March 5, 2024, EDIS aims to strengthen the EU's defense industry and increase the competitiveness and readiness of EDITB, setting long-term targets to foster a competitive EDTIB.[34] Its goals are threefold: to boost collaborative procurement, increase investment in production capacity, and develop a "security of supply" mechanism to ensure sufficient stockpiles of military equipment when needed. In terms of procurement, by 2030, intra-EU defense trade should represent 35% of the value of the EU defense market, 50% of member state budgets should be devoted to procurement from the EDTIB (60% by 2035), and 40% of defense equipment should be procured jointly.[35]

European Defense Industry Program (EDIP). The EDIP was adopted on December 30, 2025 as the implementing mechanism for EDIS, designed to bridge the gap between earlier short-term emergency measures taken and longer-term structural defense industrial strategy via a series of financial and regulatory measures.[36] Its goals: boosting defense procurement cooperation, facilitating multinational defense projects, increasing industrial production capacity, and improving supply chain adaptation.

The EDIP will provide €1.5 billion in grants to boost production capacity (2025-2027), with €300 million from this allocation pledged to Ukraine and to strengthen EDTIB competitiveness, foster cooperation with Ukraine, establish a new legal structure to facilitate cooperation across the whole cycle of defense capabilities, and ensure secure supply chains. Critics charge that the €1.5bn is too little to be effective, but the Commission has stated its intention to increase allocations to defense and space in the next budget round.[37]

In terms of management, the Commission will direct and implement EDIP with the newly established Defense Industrial Readiness Board, which will oversee priority projects and align funding. For operational management, the Commission will serve as the central purchasing body, while the Organization for Joint Armaments Cooperation will manage EU projects. A High-level European Defense Industry Group will facilitate discussions between industry and government.[38]

EDIP Components: Financial and Regulatory Measures to Expand Defense Production

- **FAST Fund (Fund to accelerate defence supply chain transformation):** leverage, de-risk, and expedite investments from public and private sectors
- **Structure for European Armament Program (SEAP):** voluntary legal structure to boost cooperation across defense equipment cycle
- **Security of Supply Board**: coordinate responses to supply disruptions, ensure continuity during crises
- **Defense Industrial Readiness Board:** oversee EDIP, identify priority projects, align EU funding
- **High-Level Defense Industry Group:** support industry-government dialogue
- Pilot European military sales mechanism (full version by 2028)

Source: European Parliament, Legislative Train 02.206 – "Regulation of the European parliament and of the council establishing the European defence industry programme and a framework of measures to ensure the timely availability and supply of defence products," https://www.europarl.europa.eu/legislative-train/carriage/european-defence-investment-programme/report?sid=10001

While the European Commission focuses on industry and procurement, defense planning remains problematic given that security and military strategy and defense planning remain the purview of national governments and is thus not firmly rooted at the EU level. A European Parliament report argues that the major hurdle to greater defense industry cooperation is a lack of political will on the part of EU countries to break long-standing patterns that preference national defense firms rather than collaborative procurement.[39] Members must work towards an "independent interoperable strategic capacity" to achieve full defense readiness. In this regard, cooperation with NATO remains key: "...a Europe that is readier to ensure its own defense is a Europe more coordinated with NATO."[40]

Adapting to a New Defense Industrial Landscape: Europeanizing NATO

The debate on the future of European security is crystallizing around the need for a more "European" NATO, which will require building joint NATO-EU capabilities and infrastructure to provide capabilities needed to reach the long-term defense goal of a self-reliant European "pillar" inside NATO. This momentum towards the "strategic Europeanization of NATO" will be a significant challenge for Europe.[41]

European Defense: The Terms of the Debate

One of the biggest challenges to U.S. and European defense cooperation is the evolving role of Europe and its cooperation with NATO. The terms in the debate—a "European pillar," or "strategic autonomy"—are contested, in large part because they are ambiguous and not clearly defined.

Nevertheless, they are important because the debate about strategic direction is no longer a political abstraction but a series of decision points about hard capabilities and sustained commitments.

Strategic Autonomy. The discussion around European strategic autonomy is unclear and often confusing because there is no widely accepted definition. The phrase first appeared in a 1994 French White Paper on defense policy in relation to security and defense matters and was described as a desire for greater autonomy for EU countries to shape their own strategic defense policies. The term was debated and discussed over the years, appearing in discussions at the 1998 NATO St. Malo summit and, more memorably, in a 2017 speech by French President Emmanuel Macron.[42] Today, EU strategic autonomy is understood in a much broader sense as "the capacity of the EU to act autonomously—that is, without being dependent on other countries—in strategically important policy areas."[43]

From the American perspective, officials have long interpreted strategic autonomy through the lens of military hard power and have been wary whenever the term was framed as independence from the United States.[44] Efforts at greater European defense integration have mostly been seen as a challenge to U.S. strategic interests and American primacy in NATO. In 1998, for example, then U.S. Secretary of State Madeleine Albright gave a speech following the EU's announcement of its new European Security and Defense Initiative (ESDI). Albright voiced support for the initiative but then set down three redlines that defined the limits of European efforts at autonomy for decades: no decoupling (from NATO), no duplication (separate force planning, command structures), and no discrimination (against non-EU members).[45]

For Europeans, France's advocacy for more European strategic autonomy in security and defense policy has long been associated with the French desire for more European independence from the United States in defense matters, which has been a source of friction inside the EU and NATO. Most European countries do not support the French position, favoring a NATO-centric, U.S.-European security defense system in Europe—for them, the only way Russia can be deterred. Accordingly, strategic autonomy encompasses closer NATO-EU defense cooperation, including clarifying the distribution of shared responsibilities and rebalancing transatlantic defense relations to ensure their viability and sustainability—and that still means a strong European defense relationship with the United States.[46]

Faced with the urgent need to close capability gaps, there are calls for political leaders to abandon political posturing on strategic autonomy and focus on closing capability gaps and accepting deeper

integration into the bargain. Strategic autonomy, as one expert wrote, "must be received as resilience within interdependencies, not emancipation from it."[47] Accepting the responsibility of shaping European defense will mean assembling the tasks, costs, and capabilities required to perform tasks that European states are currently unequipped to assume. Strategic autonomy, in this sense, means accountability, not decoupling.[48]

Burden Sharing and Responsibility Sharing. Every U.S. administration since the signing of the NATO Treaty has called for greater European defense spending. The debates on burden sharing—the degree to which NATO member states contribute to the costs of NATO collective defense—have, over time, narrowed to a numerical percentage of a country's GDP. This has been the basis for much of the political tension in the Atlantic Alliance. Experts argue there is no simple benchmark, and a focus on spending ignores the actual contributions allies make to collective defense, such as shoring up critical infrastructure (roads, airports, rail, energy grid) and building national resilience and preparedness. The term "responsibility sharing" reflects this view of acknowledging contributions as a whole-of-government approach to collective defense that focuses the debate not on how much is spent but on how it is spent.

European Pillar In NATO. The concept of a European pillar within NATO is an old debate over defining a European identity and role in NATO between the Atlanticist countries that saw Europe's role as ensuring America's commitment to European defense, and countries, such as France, that believed Europe should have a more independent role in NATO. It was proposed as a way to "share" defense spending, and it gained ground in the post-Cold War period as a path to strengthen the European voice within the Alliance. Today, the concept is being redefined as European countries take greater responsibility for their own defense and build a more integrated European defense industry. The goal is to establish a European pillar within NATO that can serve as a bridge between NATO and the EU as the development of an institutional framework progresses.[49] The term is less defined by reliance on U.S. power and more by the need for an increasingly self-sustaining component of transatlantic security—a stronger European pillar within NATO, backed by American strategic power.

Europe's task is "to construct a more resilient, coherent, and capable defense posture – one that can function with less American involvement, absorb shocks, and reflect the full spectrum of European security interests."

Sophia Besch, "How must Europe reorganize its conventional defense?" Brookings Institution, June 17, 2025

Impact on Defense Industry Actors

German Defense Industry. The Russian invasion of Ukraine upended Germany's longstanding security and defense policy and cultural reticence about Germany's military role and posture in the face of an expanding military threat on Europe's borders. In the span of three years, Germany has moved from an uneasy relationship with its military armed forces to a country whose defense expenditures are expected to surpass all other European countries by 2029.

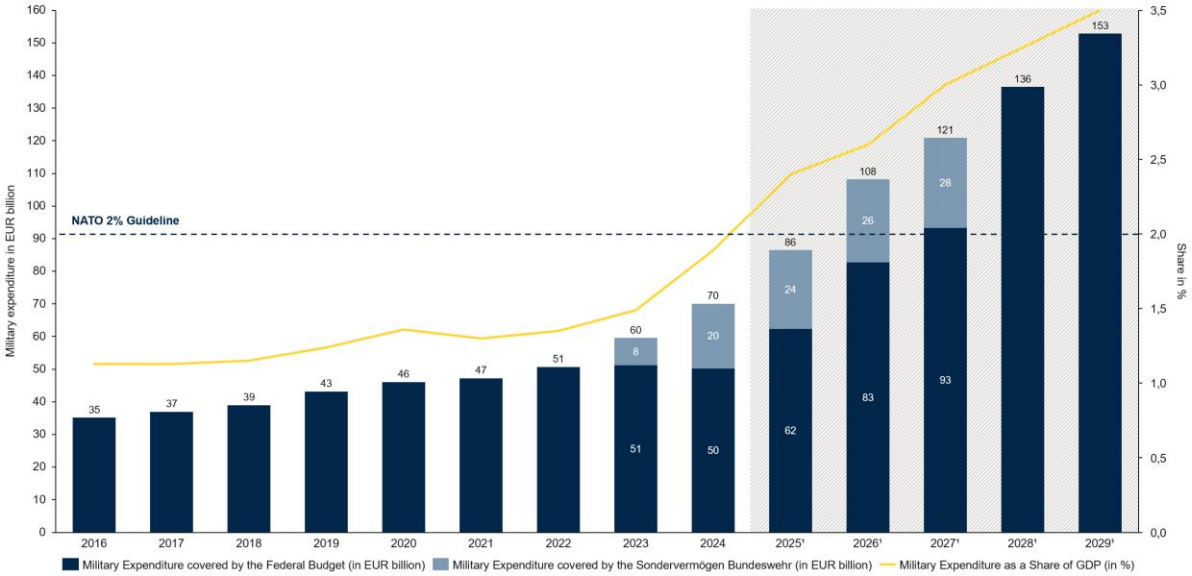
On February 27, 2022, three days after Russia's full-scale invasion of Ukraine, then-Chancellor Olaf Scholz gave a speech in the German Federal Parliament (Bundestag) in which he declared that Germany stood before a *Zeitenwende*, or a "turning point," in its foreign policy. It constituted a fundamental reorientation of Germany and its role in European defense. The task of reforming the Bundeswehr, the German armed

forces, would be monumental: In early 2025, the Bundeswehr's battle-readiness was down to around 50%, less than when Russia invaded Ukraine in 2022.[50]

By June 2022, The Bundestag had approved a €100 billion special fund to fast-track the modernization of the Bundeswehr. Accompanying the announcement of the Bundeswehr defense funding that year was the federal government's release of Germany's first National Security Strategy, followed by the June 2023 publication of Germany's first National Security and Defense Industry Strategy.[51] In 2024, Germany continued its rapid defense expansion, from chronic defense underspending to meeting NATO's 2% spending target, and it has pledged to meet NATO's 5% pledge by 2029. And as of May 22, 2025, German forces are now permanently stationed in Lithuania to reinforce NATO deterrence on Europe's eastern flank.

The goal of bolstering Germany's defense industry was given further impetus following the CDU's election success on February 23, 2025, which brought Friedrich Merz to the chancellorship. The critical question of how to fund Germany's growing defense commitments was resolved on March 18, 2025, when the Bundestag passed a constitutional amendment to loosen the "debt brake" to allow for higher borrowing for defense, accompanied by a €500 billion climate and infrastructure fund. All defense-related costs exceeding 1% of GDP are exempt from the borrowing limits normally imposed by the debt brake. The ruling allows for a pathway for higher defense spending, encompassing not only military defense but also civil defense and disaster control, intelligence agencies, and support for Ukraine.[52]

Thus, the conditions are in place to begin phased defense spending efforts. The government coalition has moved to invest significant resources to build up Germany's and Europe's military and defense-related structures that analysts say will provide a needed growth stimulus for the German economy. The 2026 federal budget allocates €82.69 billion for the Bundeswehr plus an additional €25.5 billion from a special defense fund. Between 2025 and 2030, Germany plans to spend €650 billion, double the budget from the previous five years.[53] German defense spending levels are anticipated to reach €150 billion by 2029,



Source: Johan Holmlund, "Germany's record defence modernisation drive (as of 22 October 2025)," Business Sweden, November 4, 2025, https://www.business-sweden.com/insights/blogs/germany-a-new-era-for-investment/germanys-record-defence-modernisation-drive-as-of-22-october-2025/

equivalent to 3.5% GDP.[54] This puts Germany on the path to becoming one of NATO's top defense spenders in absolute and relative terms, changing the balance of military power in Europe.[55]

There are some concerns. One challenge, for Germany and other EU members, is how to reconcile alliance cohesion with strategic autonomy. Military experts emphasize that current national procurement systems have led to inefficient duplication of structures, high unit costs, and a lack of interoperability across Europe. Building towards a defense industry of scale over time will be challenging: balancing the shorter-term need to depend on foreign suppliers, the nationalized nature of the defense base, and the demand to boost Germany's flagging industrial base set against the need to invest in collaborative procurement and coproduction to achieve strategic end goals.[56] Analysts have also noted that Germany's focus on restoring the Bundeswehr's classical conventional defense capabilities could well sideline equally critical investment in emerging technologies, innovative R&D, and tools that will prepare Germany for responding to the changing military and defense conditions it faces. A recent study by Breugel reported that European defense procurement still tends to be directed towards the large, established top ten defense companies, with less than 30% of total order volume directed to smaller firms and startups.[57] In addition, defense investment in Europe still lags behind the United States, but innovative European tech firms are expanding rapidly and beginning to draw an increasing number of European and U.S. investors, pulling in a record of almost $9 billion in 2025.[58]

The challenges for Germany are also closely linked to the poor state of French-German defense cooperation and problems with the joint Future Combat Air System (FCAS).[59] Both countries want a stronger Europe but differ on how to get there, how much cooperation is needed, and what form it takes. The French believe that Europe cannot become an independent actor without deepening the EU, and that deepening Europe's strategic autonomy will require deeper defense integration with greater commitment to joint procurement. Germany and other pro-Atlantic NATO members are wary of intentions that imply a decoupling from the United States, and for many, the short-term urgency in supplying Ukraine's war efforts justify purchasing needed military equipment from non-European suppliers.

Thus, Germany's political and fiscal commitment to building a defense industrial base capable of supporting a modern and capable military and defense force has encouraged some European states and worried others. The main obstacle to better French-German defense cooperation and leadership is the asymmetries in views of security and defense.[60] Europe's efforts in establishing a Europeanized NATO will depend on a close French-German relationship that shares a strategic vision and accepts a more collective positioning in NATO that also gives space for broader leadership with other allies that have proven they are willing to step up and contribute.

U.S. Defense Industry. America's entry into World War II set the basis for industrial mobilization and expansion, creating the present structure of the U.S. defense industrial base. Over time, the U.S. defense industry became highly consolidated, with five "legacy companies" accounting for more than one-third of U.S. defense contracts and half of the revenue of the top 100 global defense companies. Lockheed Martin's revenues in 2025 alone totaled $75 billion. The Stockholm International Peace Research Institute (SIPRI) reported that 39 U.S. companies were listed in the top 100 companies with total revenues of $334 billion. [61] According to NATO figures, U.S. defense expenditures in 2025 reached $980 billion.[62]

In comparison to U.S. defense expenditures and revenue data, EU figures for 2025 show that total EU defense expenditures in 2025 reached €381 billion, an increase of 11% from 2024. EU defense spending did rise by 62.87% between 2020 and 2025, with European defense revenues reaching €183.4 billion in

2025, a 13.8% increase.[63] Twenty of the top 100 defense companies are based in the EU, with total revenues of $112 billion. Though the EU's defense industry at large is concentrated in five countries—France, Germany, Italy, Spain, and Sweden—46 of the most critical defense goods are spread across 23 member states.[64]

U.S. technological innovation and R&D investments are significant drivers of America's success, as reflected in these numbers, but capabilities must be matched by the capacity to produce, deliver, and sustain the military goods a state requires for defense.

Top Five U.S. Defense Companies	SIPRI Rank 2024	Arms Revenues 2024 ($m.)
Lockheed Martin	1	$64,650
RTX	2	$43,600
Northrup Grumman	3	$37,850
General Dynamics	5	$31,100
Boeing Company	6	$30,550

The results of defense consolidation have been decommercialization and suppressed competition of the American defense sector. The longer-term effects are mirrored in its inefficiencies, supply-chain vulnerabilities, workforce shortages, and ageing infrastructure, with significant backlogs characterizing most large weapon systems and their production.[65] The costs of major U.S. defense weapons—fighter aircraft, submarines, battle tanks, and other programs—have increased substantially, and delays are chronic—up to 12 years in some cases.[66]

This is especially concerning because some voices in Congress now argue that the U.S. industrial base is unable to meet the challenges of geopolitical competition and should focus primarily, or even exclusively, on supplying U.S. forces.[67] Unfortunately, this only adds to European concerns about the reliability of U.S. suppliers and whether long delays in U.S. weapon deliveries could pose a risk to Europe in the event of a sudden crisis.[68] Regardless, as defense analysts continue to emphasize, European dependence on the U.S. defense sector is substantial but Europe's strategic capability gaps necessitate close cooperation with the U.S. defense industry over the longer term as Europe adjusts to assuming a more strategic autonomous defense role. European countries have long worked closely with U.S. forces and defense companies. Concerns such as those voiced above will have to be managed inside a reconstructed U.S.-European defense industry framework that will require adaptation from both sides.

Top Five EU Defense Companies	SIPRI Rank 2024	Arms Revenues 2024 ($m.)
Leonardo (Italy)	12	$13,830
Airbus (Trans-European)	13	$13,370
Thales (France)	16	$11,800
Rheinmetall (Germany)	20	$8,240
Saab (Sweden)	28	$5,550

Ukraine. Ukraine is now the leading defense and technology innovator in the military defense sector. Its response to Russia's invasion—its rapid defense adaptation and innovation born of necessity, cost, and urgency—has fundamentally redefined how experts view the modern battlefield, military strategy, and defense production capacity. The European Union has moved to integrate this knowledge and battlefield experience into its defense industrial infrastructure.

The European Union has provided around €177.5 billion in financial, humanitarian, and military support to Ukraine since February 2022 and has now surpassed the level of support provided by the United States.[69] In late November 2025, the European Parliament voted to deepen the EU's defense cooperation with Ukraine by linking it to the EU's Defense Investment Program. Ukrainian firms now have access to the European Defense Fund for research and development projects, which will integrate their defense and production scalability into the EDTIB.[70]

The EU has also opened a European Defense Innovation Office in Kyiv to further accelerate the integration of battlefield experience into scalable solutions for the emerging European defense industrial base and has committed €2 billion to drone warfare development.[71] Finally, as noted before, Ukrainian firms will have access to the €150 billion in SAFE loans to build joint defense programs with European defense firms. All these access points created by the EU will strengthen military collaboration to address interoperability gaps, boost European technological innovation and technology transfer, and diversify supply chains—acknowledging that ensuring Ukraine's security is critical to Europe's defense.

New Tech Competitors. Both American and European defense firms will have to navigate a rapidly transforming global defense market and compete with new entrants, including tech firms, start-ups, and highly innovative Ukrainian defense tech firms.[72] Increasingly, defense technological innovation is being driven not by the defense sector but by commercial sector firms, blurring the lines between the two sectors. These "neoprimes"—start-ups that are challenging the defense legacy "prime" contractors—are sources of innovation and critical dual-use technologies needed across the board to respond to non-conventional threats.[73] These technologies will increase resilience, effectiveness, and cost savings, contributing to Europe's strategic autonomy.

The growing intersection of the defense and commercial sectors will be critical to the expansion of Europe's defense industrial base. Investment in European defense technology start-ups grew 500% between 2021 and 2024, but it is still in its infancy. European—and German—investment interests are responding, focusing funding on dual-use technologies such as robotics, cybersecurity, drones, sensors, and AI. A McKinsey report identified three types of systems capabilities governments are looking for: technology to "disaggregate" capabilities, reducing points of failure and thereby increasing system resilience; communication networks that ensure disaggregated assets can function together; and new technologies to address capability shortages.[74]

There are other positive indications that the pace is accelerating. European venture capital funding increased from around $200 million in 2021 to $2.6 billion in 2025, a more than ten-fold increase. Funds for start-ups increased four-fold between 2020 and 2025, to $8.7 billion. NATO and EU defense funds—such as NATO's Innovation Fund and the EU's SAFE loans and other incentive mechanisms—will add more innovative actors into the mix.[75] Despite this momentum, a significant share of defense equipment is still sourced outside Europe, and U.S. defense tech investment remains more than three times higher than in NATO European countries. As former U.S. NATO ambassador Julianne Smith argued, the deficit is not in innovation and talent but in a "growth-stage capital gap and a market structure failure that dampens investment and, thus, production of critical capabilities.[76]

Nevertheless, despite competition from newer entrants into the defense industrial field, legacy companies still dominate the sector and have deep experience in producing larger weaponry and technology and building to scale.[77]

Building a European Defense Industrial Base

The momentum to strengthen EU military capabilities and industry capacity to build a more self-reliant European pillar within NATO is accelerating. Where are the lines of complementarity—what each organization brings to the table—and where does consolidation and deepening cooperation advance the short-, medium- and long-term defense goals and objectives?

Challenges for the EU and NATO

The future of Europe's defense industrial base will depend on aligning strategic assessments with innovative procurement models that prioritize collaboration over competition. Defense analysts emphasize the need for new models to replace the traditional defense industrial cooperation approach, whose rigid rules, contracts, and procurement cycles hinder quick adaptation and technological innovation.[78] Having established fiscal mechanisms for EU countries, the next challenge for the EU is how to address the obstacles to acquiring critical defense goods and capabilities.

Perhaps the most far-reaching stumbling block is the EU itself, with 27 sovereign member states, each with its own budget, priorities, and domestic pressures. The EU defense industry consists mainly of national companies that produce for national markets in small volumes. In terms of defense, this institutional structure constrains efforts to coordinate defense planning and procurement, resulting in market fragmentation along national lines; for example, the EU has over 170 different weapons systems in use, compared to 30 in the United States.[79]

The effects of fragmentation cascade through the defense system. The resulting duplication and poor collaboration create inefficiencies, leading companies to fail to achieve economies of scale in production. Unit costs become too expensive, making defense goods uncompetitive. Joint procurement becomes difficult, and without standardization, interoperability—for example, in logistics, supply chain protection, and command/control and communication systems—suffers as well. That the EU defense industry also suffers from chronic underinvestment simply adds more stress to the system. Given that the United States is the largest supplier of defense equipment to Europe, these effects increase Europe's dependence on the United States: from 2021 to 2024, 78% of defense acquisitions of EU member states were from non-European suppliers, 63% of which were from the United States.[80] The bottom line: high fragmentation contributes to high import dependence, higher costs, and lower efficiencies of scale.

Consolidating the European defense industrial base and addressing the capability shortfalls, weaknesses, and gaps identified by experts will be a challenge. The inventory of core military capabilities in which the EU's defense capabilities are weakest is well known. Reducing Europe's dependency in areas such as strategic enablers (command/control and communications, intelligence, surveillance, reconnaissance) is a priority, as are critical infrastructure protection and military mobility.[81] A strong European defense posture will require defense equipment to reinforce Europe's conventional defenses, especially in the short term, for both NATO member states and Ukraine: air and missile defense systems, artillery systems, ammunition and missile production, and drones and counter-drone systems.[82] Finally, the EU has underinvested in R&D, and investment will be needed to drive technology innovation in areas such as AI, quantum technologies, and cyber security, capabilities needed to deter expanding hybrid warfare threats throughout Europe.

The challenge, as one expert noted, "is to manage fragmentation and dependency more deliberately—by aligning procurement where possible, investing in sovereign capabilities where necessary, and maintaining openness where it adds strategic value."[83]

Priorities in the Short-, Medium-, and Long-term

Preliminary actions by the EU and NATO to increase defense spending, incentivize investments, and adapt institutional mechanisms have been taken with the goal of establishing a strong and resilient European defense industrial base by 2035, one that has secured vital components such as standardization and interoperability, eliminated capability shortfalls, and met established joint procurement targets. Defense experts have analyzed what tasks and priorities will be required over the next decade to establish a durable and fully functioning European defense industrial base. While a focus on the urgency in reaching short-term goals is understandable, it is equally important to keep longer-term goals in sight.

Operational Priorities and Needs - **Short-term**

- Replenish key combat stockpiles
- Restore surge production
- Stabilize supply chains
- Emergency procurement
- Immediate logistics and transport
- Quick supplier capacity incentives
- Improve force readiness

Short-term: Fill Immediate Gaps. The strategic priorities in the short-term hinge on mobilizing financing, maintaining and enhancing military support for Ukraine, and deterring Russia from expanding the war. The short-term needs focus on aggregate demand for urgent defense goods and speed of acquisition and delivery.[84]

Up to now, EU member states have responded to replenish ammunition, weapons, and other key stockpiles and expand industrial "surge capacity" to provide military support to Ukraine. The increase in EU ammunition capacity, for example, was remarkable, increasing from around 300,000 rounds per year in 2022 to an estimated three million by the end of 2025.[85]

The EU continues to push member states to close critical capability gaps and to leverage civilian industrial capacity and Ukraine's battlefield experience. President von der Leyen's March 2025 speech prioritized air and missile defense, offensive missile production, ammunition, and drone/anti-drone systems. Stronger coordination among member states to meet these demands was also urged.[86]

Operational Priorities and Needs - **Medium-term**

- Joint production and capability projects
- Industrial scaling (factories, workforce)
- Procurement reform
- Harmonize standards/operability
- Demand-aggregation
- Build cross-border R&D and innovation systems

Medium-term: Capacity-Building and Speed. Medium-term requirements intensify the focus on capacity scaling and speed: improving interoperable industry capacity and faster procurement cycles with shorter delivery times. NATO documents emphasized coordination of efforts on production investments, pooling procurement mechanisms, and factory expansion and upgrades.[87] The EU White Paper supported such operational steps but also elevated readiness and efforts to incentivize joint procurement and coordinated national plans.[88]

Long-term: Structural Change and R&D Innovation. Over the longer term, priorities extend the rationale to direct investments to securing sovereign capability and innovation in critical technologies: space, AI, semiconductors, and missile defense. This requires significant R&D resourcing and structural measures to buttress the expanding industrial defense base. Investing in workforce skill-building and training is equally vital for building a competitive and resilient defense base. Policies to safeguard supply chains remain a long-term priority.[89]

Operational Priorities and Needs - **Long-term**

- Reduced structural fragmentation
- Secure strategic sovereignty in critical technologies
- Strategic industrial partnerships established
- Sustained R&D funds to invest in next-generation and emerging capabilities
- Supply chain diversification and resilience programs

NATO-EU Defense Complementarity and Cooperation

The clear message is that Europe must now assume responsibility for its conventional defense, and that NATO and the EU must ensure both organizations prioritize cooperation and complementarity—cooperating in working towards a common goal and finding complementarity where both organizations enhance each other's effectiveness and leverage each other's strengths. Both are critical, reinforcing elements: complementarity is necessary, but it is incomplete without strategic cooperation.

For more than two decades, the EU and NATO have built out their institutional and operational relations to foster cooperation across a range of areas: hybrid warfare, cybersecurity, military mobility, operational cooperation, and joint crisis preparedness. NATO is also a political organization, and political dialogue is institutionalized at multiple levels: staff-to-staff meetings, exchanges, joint briefings, and high-level task forces.[90] Over time, though there has been competition, inter-institutional rivalry, and disagreements when areas of responsibility have overlapped, the EU and NATO have built a durable partnership.

Whether a true division of labor between the organizations is feasible is a subject of debate, but most observers argue that a strict division of competences is not possible and the complementarity between the two organizations not easily separable; both have expanded civilian and defense roles, and threats such as cyber and hybrid warfare attacks cross over competences, blurring the lines and thus necessitating close coordination.[91]

What, then, do defense experts view as the strengths and comparative advantages each maintain to build a strong European defense industry that can resolve the challenges Europe faces in the next decade? What instruments and tools—institutionally as well as politically, economically, and militarily—do NATO and the EU bring to the table?

NATO. NATO's 2025 Updated Defense Production Action Plan, endorsed by all allied defense ministers, states that "NATO will continue to take mutual steps with the European Union to strengthen coherence and complementarity of respective efforts and relevant work in bolstering defence industry."[92]

Above all, NATO will remain the organization with the deep military expertise and experience required to ensure collective defense for Europe. Defense experts are clear about NATO's lead on defense planning, capability development, and coordinating defense buildup.[93]

NATO can coordinate effective procurement policies between allies and close capability gaps and weaknesses of Europe's existing defense industrial base. Working to restructure a European defense industrial base that resolves the debilitating impacts of fragmentation will be a top priority—working to rapidly produce critical equipment, reinforce supply chains, lead in forward-leaning defense innovation, and build strong partnerships to maximize advantages NATO and EU members bring to the collective effort.[94]

NATO member states must set and impose standards all must comply with to build capacity efficiently. Standards drive production: choosing companies that build to standards (say, for example, building to 80% of standards, leaving 20% for companies to build in nation- or domain-specific requirements) can expand co-production lines to several countries, spreading the gains and benefits and delivering critical capabilities faster. The need for recognized standards and mutually recognized certification is also underlined in the EU's Commission and High Representative's joint communication of October 16, 2025.[95]

Institutionally, NATO's European members will work closely with the United States to prepare a phased and managed transition of command authority from U.S. military leaders and staff to Europeans and Canadians. This transition has in fact begun; in February 2026, the United States transferred two of the three joint forces commands, in Norfolk, Virginia and Naples, Italy, from U.S. to European command officers. All three of the regional joint force commands are now led by European NATO members. However, it must be said that at the same time, the United States took command of MARCOM, NATO's maritime contingent command, thereby adding MARCOM to their control of AIRCOM and LANDCOM, the remaining two pan-regional NATO contingent commands.[96]

Targeted Policies to Support European Defense

1. Support, reinforce, and promote industrial capacities across the EU
2. Secure supply of critical industry outputs and reduce dependencies
3. Build a true EU-wide market for defense equipment
4. Simplify existing rules and cut red tape
5. Boost research and development to foster innovation
6. Keep, attract, and develop talent, enhance skills, and expertise in the defense sector

White Paper for European Defense-Readiness 2030, p. 12.

Defense experts also see NATO assisting the EU in investment priorities for defense equipment and engaging in co-production and co-development, building joint projects based on the assessments and priorities resulting from the NATO planning process. For example, its multinational capability cooperation program has recently approved four new joint initiatives to address defense needs related to ballistic missiles, drones, air power resilience, and munitions.[97]

EU. The European Commission White Paper on the Future of Europe states that "NATO remains the cornerstone of collective defence of its members in Europe," and that the "EU's unique tools of regulatory power and financial instruments help the 23 EU member states in NATO to achieve their capability targets."[98]

Since EU treaties reject the use of EU budget funds for military purposes, the EU's security and defense levers lie with the Commission, which has the ability to strengthen the emerging defense industrial framework by bringing significant capacities and institutional frameworks to bear—legislative, regulatory, and economic power as well as financial resources and subsidies. The Commission can thus serve as a catalyst for closer internal coordination in the joint acquisition and production of critical defense goods and systems.

The Commission can use its regulatory authority and leverage its market size and manufacturing power to drive co-production and co-development, and it could create conditions that expedite NATO procurement targets or help advance military mobility priorities by coordinating EU member states on infrastructure projects to increase cross-border logistical interoperability.[99]

Through the Commission, the EU can incentivize defense investment and R&D to support defense procurement and readiness. It has already approved two waves of defense funding under SAFE, whose loans are designed to incentivize member states to join common procurement projects. Already in 2026, 16 of the 19 countries that submitted requests for financial assistance were granted a total of €112 billion in loan agreements to scale up military readiness and procurement.[100]

Furthermore, the EU could assess how it might address priorities on access to critical raw materials or dual-use technologies and coordinate industrial planning and integrate supply chains as collective procurement advances. Finally, the EU is a vital pipeline to help integrate Ukraine's expertise and military capacity into the European defense ecosystem.[101]

In summary, the discussion on how to construct a European defense system is, of course, not just about military and operational capabilities. Europe's challenge is also organizational and structural.[102] The challenge extends to questions of institutional adaptation not just within NATO and inside the EU, but also between them. How to reconfigure NATO as the United States pulls back, who leads and manages the construction of the European defense industrial base in Europe, and how to systematize critical coordination networks between NATO and the EU? How to overcome resistance to opening national defense markets and liberalize intra-EU trade, as the goal of a Europeanized NATO will require?[103]

Success at building a managed transition to a self-reliant European pillar inside NATO will require political will in the EU and NATO to work towards common goals: building an effective institutional interface to strengthen dialogue to avoid duplication and misunderstandings and mobilizing together the complementary range of instruments needed.[104]

Restructuring Defense Industrial Cooperation

The EU is moving towards a more regional defense industry strategy. Key approaches include strengthening the defense and industrial base, accelerating joint procurement, fostering cross-border innovation, and establishing regional "hubs."[105] Different constellations of regional groupings are in discussion.

For example, in June 2025, Sweden, Norway, Denmark, and Finland signed a strategic partnership agreement (SPA) to build critical ammunition reserves for their military forces. It will leverage comparative advantages in the countries and help support the integration of SMEs into transnational supply chains. The SPA's aims are collective acquisition of munition, shared stockpiles, increasing procurement, and streamlining the group's assistance to Ukraine.[106]

In presenting a model of "regional pragmatism," Sophia Besch, Erik Brown, and Rafaela Uzan argue that the urgent rebalancing of the transatlantic defense industry relations can be advanced through regional frameworks such as the collective efforts in a coalition of countries in the Baltic Sea Region (the Nordic and Baltic states plus Germany and Poland). This type of cooperative regional framework is a pragmatic response aimed at building regional contingency plans that prioritize speed, interoperability, and "combat credibility" rather than abstract "autonomy" practices."[107]

Approaching defense industrial cooperation as "a function of operational urgency and credible threat" can reduce Europe's core gaps by standardizing, pooling demand, and thereby speeding up delivery, integration, and operational outcomes. The authors stress that this complementarity-based model does not break with the United States; rather, it suggests a more realistic path toward a new equilibrium in which Europe takes greater responsibility.[108]

Another form of coordination being debated is the formation of "capability coalitions"—bilateral and minilateral defense clusters that can focus on joint procurement, interoperability, and operational coordination inside the core construction of a European defense system. Such integrated clusters are adaptable and flexible and can speed up efforts to identify areas of convergence while addressing regional security needs.[109]

US-European Defense Industrial Cooperation: Benefits and Challenges

"Washington needs to accept it has much to gain from a more powerful ally which can manage its own security affairs…" and "European leaders need to make clear that their version of Europeanization of NATO is neither a pipedream nor an act of hostility or autarky…"

Katja Bego, "What should a more European NATO look like?" *Chatham House, February 2026.*

The United States has sent a clear message that Europe must take over responsibility for its security and defense. Acknowledging this necessity, NATO and the EU have increased spending and established institutional mechanisms to accelerate the process of expanding Europe's defense infrastructure.

The debates about how U.S.-European cooperation can support this undertaking underscore the multiple dimensions in which cooperation produces military, strategic, technological, and economic benefits for the United States and Europe. Experts emphasize that closer US-EU defense industrial cooperation can enhance alliance interoperability, drive technological innovation, strengthen industrial resilience, and reinforce broader political and strategic ties.

How Europe Benefits

Strategic Gains. Europe's commitment to assuming responsibility for its conventional defense and constructing a European defense industrial ecosystem frees up American resources and brings strategic gains for the United States as well as Europe. A durable transatlantic relationship will maintain NATO's deterrence and defense posture in the face of ongoing Russian aggression. A collaborative strategic industrial partnership and industrial co-production and technology co-development will help build next-generation and emerging capabilities that will benefit states on both sides of the Atlantic.

Economic Strength. Defense spending will drive investment. All NATO members are currently committed to at least 2% defense spending annually. SIPRI data show that Europe's defense allocation in 2025 was just short of $563 billion, an increase of $100bn from 2024, reflecting a 12.6% year-on-year increase. Europe's share of global defense spending rose from 17% in 2022 to over 21% in 2025, with strong

growth expected to continue. Regarding European countries, Germany has been the primary engine of growth in defense spending, with an 18% increase in real terms in 2025 following a 23% rise in 2024—accounting for 25% of all European defense allocations over the last two years.[110]

If European NATO members were to increase their defense spending to 3% GDP, it would generate more than $300 billion in new spending annually. Reaching a 3% target would exceed $600-700 billion annually.[111] A Kiel Institute report in February 2025 stated that productivity would increase by .25% with a short-term increase of 1% GDP in military spending.[112]

European countries would see greater domestic economic spillover effects from defense investment as well—technology transfer, private investment in R&D, high-skill job creation, and private investment stimulation.[113] Other benefits derive from NATO's decision to designate 1.5% GDP annually to "defense- and security-related" (non-military) investments, such as in construction/critical infrastructure, civil preparedness, cyber defense, supply chains security, and fostering innovation.[114]

How the United States Benefits

Though America's European partners are rapidly creating the conditions for building a European defense industrial base, the United States remains a critical partner in ensuring European security and defense. And: Washington has much to gain from militarily stronger, more self-sufficient European allies that can manage regional strategic interests through their own defense industrial ecosystem.

Strategic Relevance. America accrues significant gains through its NATO presence and its network of 31 bases and access to 19 other military sites in the region.[115] Along with overflight arrangements made with European allies, these basing rights allow the United States to operationally pre-position troops and equipment in case of crises and give the U.S military the ability to project power farther afield (e.g. Middle East, Asia).[116]

NATO helps Europe and the United States deter Russian military aggression and protect their mutual strategic interests in the Arctic and in the North Atlantic. Finally, a strong U.S. footprint in Europe provides a stronger geopolitical counterweight to growing defense cooperation between Russia and China. In essence, America's European allies help offset the costs of defense for a region that remains of substantial strategic importance for the United States.

Economic Interdependence. Like U.S.-European defense cooperation, the $9.5 trillion transatlantic economy—consisting of $2 trillion of trade in goods and services and $7.5 trillion derived by sales by U.S. and European affiliates based in each other's markets—is a complex and deeply integrated and interdependent structure.[117]

The United States and Europe remain each other's most important markets and geo-economic base: it represents 16 million jobs, half of the total in global personal consumption, $7.5 trillion annual commercial sales, and one-third of global GDP in terms of purchasing power.[118] In terms of goods and services trade, investment, jobs, and transatlantic innovation and R&D, it is a mutually beneficial relationship that drives economic prosperity on both sides of the Atlantic.

U.S. administration officials have sent Europeans mixed messages about EU actions, ranging from encouragement and offers to accusations of protectionism and of even "bullying" U.S. firms from entering the emerging defense market.[119] But U.S. defense companies, with long-standing ties in Europe, are bullish about the opportunities and confident they can meet European requirements via joint development and local production.

The massive growth of cash and investment opportunities means U.S. defense and commercial companies can increase their shares in the European defense market through co-production projects, mergers and acquisition, co-development, and the establishment of European-based subsidiaries.[120] U.S. defense firms and start-ups are seeking partnerships, joint ventures, and production opportunities to qualify for European procurement. The agreements could include tech transfers, licensing, and intellectual property agreements, and local manufacturing facilities will provide jobs.[121] Unsurprisingly, with European countries footing the bill for building a stronger European defense, European taxpayers will expect to reap the benefits of the investment—greater security, job creation, and economic growth. Nevertheless, companies such as Lockheed Martin are already expanding their supply chain in Europe and establishing manufacturing facilities.[122]

Defense business strategists contend that the EU's SAFE program will not result in a significant loss of military contracts for U.S. defense companies—in part because of the deep ties transatlantic defense industrial relations have forged over decades, but primarily because it will take time for European countries to scale up. This offers opportunities for U.S. companies to build longer-term partnerships with European companies to establish an industrial footprint in Europe.[123]

Political Value. The United States now expects Europe to assume responsibility for its conventional deterrence. It lies in America's interest to help ensure its European allies acquire the capabilities needed to fulfill that task. A transition to a greater role and responsibilities for Europe in NATO means European states would make their own independent choices and decisions apart from the United States when necessary. Strategic autonomy and a strong U.S.-European defense partnership are not mutually exclusive.[124] The shared benefits of a strong, durable transatlantic and NATO-EU relationship will mean better capacity to deter and protect U.S. and European security and strategic interests across the spectrum.

Challenges For the Future

The paradigm shift in transatlantic relations will drive a fundamental transformation in the underlying assumptions, power dynamics, and operational logic that have guided the transatlantic alliance since World War II. For Europe, it brings in its wake structural alterations in the U.S.-led order toward a re-ordering of U.S. strategic priorities away from Europe, and a commitment by its European partners to step in to shoulder the responsibility for Europe's conventional defense, sustained by a reconstructed and European-based industrial defense structure.

There are concerns about the trajectory of U.S.-European relations given the increasingly divisive rhetoric of the past several months, and that European and American officials seem set on following increasingly divergent paths—with Americans talking of a retreat from Europe and Europeans speaking of decoupling from the United States.

For many observers, there must be an acknowledgement of shared strategic, economic, and political benefits, coupled with a commitment to pragmatism and a modulated transition in redistributing defense roles and responsibilities. As European defense capacities grow, the relationship will shift and rebalance as European and American priorities shift.[125]

Central to many concerns is the necessity of casting aside zero-sum or narrow national interests to focus on the goal of creating a mutually balanced and mutually supported relationship with the United States, NATO, and the EU. Evolving towards "strategic coherence"—not just institutional integration and cooperation but agreement on the "why" and "how" of future European defense—will be critical.[126]

For one, there is a need to ensure short-term thinking does not derail long-term goals. The urgent necessity of supplying Ukraine and the fragmented nature of Europe's defense industry may override the need to think through steps along the short-, medium-, and long-term trajectory in building strategic autonomy, since building strategic autonomy means re-balancing U.S.-European defense relations, too.

Then there is the downside of a "going it alone" mentality on both sides of the Atlantic—the "America First" versus the "Europe First" debates.[127] Experts point out that no country can supply all it requires for its defense, and that a "Europe First" policy cannot be done by excluding foreign suppliers such as the United States, South Korea, Japan, or Israel. A protectionist European defense landscape will mean a persistent deficit in the kinds of advantages cooperative and collaborative defense efforts bring—technology development, innovation, economies of scale, and other advantages. Restraining competition will ultimately defeat the goal of a resilient and adaptive defense ecosystem.

Equally, an "America First" defense strategy burdens the United States with similar risks: increased costs, production delays, supply chain bottlenecks where reliance on foreign materials exist, and further alienating its allies. Increased coordination and complementarity can bring significant benefits by identifying strategies that minimize weaknesses on both sides. In this way, both the United States and European countries will ensure they are on the same mutually supportive path of cooperation and complementarity in ensuring a strong European defense that remains central to the interests of all.

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