DEFENSE & SECURITY

Fortifying Europe: The Launch of EDIS and the Future of EU Defense Autonomy

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(Photo Source: NATO)

The ongoing war in Ukraine has not only shattered decades of peace in Europe but has also challenged the assumption that defense budgets can continually be reduced. With the potential re-election of Donald Trump, known for his skepticism towards NATO and his isolationist foreign policy, concerns about the robustness of US defense commitments to Europe have surfaced. Against this backdrop, European defense has faced challenges due to prolonged underinvestment and a lack of policy support since the Cold War's end, leading to a scarcity of military resources and domestic production capabilities.

In light of the deteriorating security situation in Europe, exacerbated by the Ukraine war, the European Commission promulgated the first-ever EU Defense Industrial Strategy (EDIS) to enhance structural defense readiness across the continent. The strategy, outlined on March 5, 2023, sets a clear direction for the next decade with the aim of achieving 'EU readiness through a responsive and resilient European defense industry,' as highlighted in the Strategic Compass. Notably, the strategy seeks to reverse a concerning trend: since the onset of Russia's aggression against Ukraine, 78% of defense acquisitions by EU countries stem from non-EU producers. EDIS represents a significant shift in EU policy, focusing on increasing domestic capabilities and reducing reliance on external suppliers.

Prior to the outbreak of the Russia-Ukraine war, European defense budgets were gradually increasing, influenced by events such as Russia's annexation of Crimea and the rise of terrorism. Despite this, EU defense spending remained below the 2% GDP target reaffirmed by

NATO member states in 2014. However, the onset of the war in 2023 marked a significant hike in defense spending. Several European countries, including Austria, the Baltic states, Finland, the Netherlands, Slovakia, Slovenia, Sweden, and Poland, have demonstrated substantial increases in their defense budgets. This year, European NATO members, most of whom are also EU members, are expected to spend a record $380 billion on defense—a stark increase from $230 billion in 2014. From the beginning of the war until June 2023, EU countries acquired approximately €100 billion worth of defense equipment, with Germany and Poland accounting for a significant share. A notable trend during this period has been the procurement of equipment from the US, including ammunition replenishment, air defense systems, and combat aircraft and helicopters—often for systems where no competitive European alternatives exist.

According to the statement released by the EU Commission on March 5, 2023, EDIS aims to address the challenges faced by the European Defense Technological and Industrial Base (EDTIB) and to tap into its full potential. EDTIB, which encompasses small and medium enterprises (SMEs) in the defense sector, boasted an estimated turnover of €70 billion and exports worth more than €28 billion in 2021, employing around 500,000 people. The strategy outlines ambitious goals to enhance European defense industry readiness, emphasizing the need for Member States to invest more efficiently and collaboratively to focus on bolstering European capabilities. EDIS proposes a series of actions to better articulate collective defense needs among Member States, leveraging existing frameworks such as the Capability Development Plan (CDP), the Coordinated Annual Defense Review (CARD), and the Permanent Structured Cooperation (PESCO). The CDP is the EU's central reference for defense planning and the basis for all defense-related initiatives. It examines potential security scenarios and suggests response capabilities for European armies. CARD is a process of monitoring the defense plans of EU member states to help coordinate spending and identify possible collaborative projects. PESCO, established in December 2017, is a legal framework that allows 26 EU member states (the exception being Malta) to collaborate on defense projects.

By utilizing existing instruments and initiatives such as CPD, CARDS and PESCO, EDIS aims to create a more coordinated and cohesive approach to identifying and addressing the collective

defense needs of the EU Member States to help them better communicate and coordinate their defense needs and requirements. Furthermore, the strategy will incentivize cooperation among Member States during the procurement phase of defense capabilities. This means that the EU will encourage and support Member States to work together in purchasing defense equipment and systems, potentially leading to cost savings, interoperability improvements, and a more efficient use of resources. EDIS also seeks to secure a reliable supply of defense products from a more responsive EDTIB. It includes measures to ensure that EDTIB has access to necessary resources even during crises, thereby bolstering the EU's supply security. Additionally, the strategy advocates for national and EU budget allocations to adapt the European defense industry to new security contexts, promoting a culture of defense readiness across policies. This includes reviewing the European Investment Bank's lending policies, developing closer ties with Ukraine through participation in Union initiatives that support the defense industry, and fostering cooperation between the EU and Ukrainian defense sectors.

EDIS sets ambitious targets to measure progress towards industrial readiness by 2030. Member States are encouraged to procure at least 40% of their defense equipment collaboratively and to ensure that the value of intra-EU defense trade accounts for at least 35% of the EU defense market's total value. Additionally, Member States are to progressively increase their procurement from within the EU to at least 50% of their defense budgets by 2030, and further to 60% by 2035. From 2025 to 2027, the EDIP will mobilize €1.5 billion from the EU budget to enhance the competitiveness of EDTIB. This funding will also support the industrialization of products stemming from cooperative R&D actions supported by the European Defense Fund. Moreover, the budget will facilitate the creation of a Fund to Accelerate Defense Supply Chains Transformation (FAST), aimed at providing debt and/or equity financing to SMEs and small mid-caps that are industrializing defense technologies or manufacturing defense products.

Implementing EDIS may, however, face challenges due to the need for approval from various EU stakeholders, potential changes in priorities after the EU parliamentary elections, and Member States' hesitance to transfer additional powers to the Commission. The strategy's assessment of EDTIB capacities appears overly optimistic. Despite increased ammunition

production in the last two years, it still falls short of the required levels. Estimates suggest that Europe will be able to produce enough ammunition for Ukraine only by 2026, while Russia has managed to increase its production to over 2 million shells per year, giving it an advantage for the time being. EU countries have traditionally procured defense products at a national level, leading to the creation of national industrial silos and numerous defense systems that often lack interoperability. This fragmentation hinders efficiency and collaboration within the EU defense industry, even though EDIS aims to reduce the share of non-EU military imports from 78% (February 2022 to June 2023) to below 50% by 2030, without adequately explaining how this will be accomplished.

EDIS also falls short in addressing the funding challenges faced by the European defense industry. The proposed €1.5 billion for industrial development is insufficient for a sector with a €70 billion turnover. The strategy does not consider the debate on joint EU borrowing for military aid to Ukraine, which could be a temporary solution funded by deficits. Nor does the strategy adequately address the difficulties in accessing private finance faced by SMEs in the defense sector.

While EDIS aptly sets the tone for strengthening the European defense industry, it needs to be more pragmatic in its approach. The EU must balance the need to develop domestic capabilities with the importance of maintaining strategic partnerships and ensuring cost efficiency in military procurement. The strategy opens the debate on integrating European defense spending, but the EU must be cautious not to become protectionist at a time when it is critically dependent on foreign supplies. The EU is taking various steps including EDIS to support this shift, which aims to make the EU stronger and more capable in the areas of security and defense. The development of EU defense industry and the increase in its production capacity will be made possible by the Member States' continuous increase in defense spending and the prioritization of collaborative investments through appropriate instruments and incentives. While the EU does not currently have a near-term goal of becoming a military power independent of NATO, in the long term, it would like to achieve this status to become a geopolitical powerhouse.

EDIS is one of the most serious steps the EU has taken so far to increase the production capacity of its defense industry, keep the military expenditures of its member states within the EU's borders, and become a more independent military power. However, questions remain whether EDIS will be able to meet the EU's needs and whether the funds available to the EU are sufficient to implement the strategy effectively. Moreover, implementing the EU's goals of becoming a more self-sufficient and influential military power may pose challenges due to the fragmented nature of the EU and the diverse national interests and priorities of its member states. The EU comprises 27 countries, each with its own political, economic, and military considerations. This diversity can make it difficult to reach a consensus on defense matters and implement a unified strategy like EDIS. Furthermore, realizing this strategy may well have an impact on EU–NATO and EU–US relations, being seen as a move towards greater European autonomy in defense matters. In short, EDIS traces an exacting route for the EU to follow.

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