

EU Defense Plans

Assessing EU Rearmament Plans and Dependence on the United States

→ The EU's fragmented financial architecture, coupled with divergent national threat perceptions and interests, creates a "rearmament paradox" in which immediate security needs often undermine the development of the EU's sovereign defense industrial base.

→ Unless the EU integrates its capital markets, coordinates procurement, and scales its defense industry, rearmament may entrench dependence on the United States rather than reduce it.

Introduction

Russia's invasion of Ukraine in 2022 and growing uncertainty about long-term U.S. security guarantees have transformed European defense into a central strategic priority.

EU member states have announced sizable increases in military expenditure, and new initiatives, such as the European Defence Industrial Strategy and Security Action for Europe (SAFE) loan instruments, aim to reinforce industrial capacity and reduce fragmentation. However, three overarching EU policy objectives — increasing defense spending, achieving rapid rearmament, and building European strategic autonomy — are potentially contradictory.

A "rearmament paradox" has emerged in which immediate European security needs reinforce its dependence on the United States and often undermine the development of the EU's sovereign defense industrial base.

Defense spending

North Atlantic Treaty Organization (NATO) defense spending increased significantly between 2022 and 2025, with 32 states surpassing the 2% GDP benchmark in 2025.

At the June 2025 NATO Summit in the Hague, leaders agreed to establish a new benchmark of 5% of GDP by 2035, including 3.5% for core military expenditures and 1.5% for defense-related resilience.¹ This shift, at the urging of President Donald J. Trump, reflects an acknowledgment that the 2% floor was insufficient to address the threats facing the region and that Europe could no longer count on U.S. security commitments.

Spending increases, however, do not automatically translate into domestic industrial expansion or real rearmament. Instead, rapid spending increases

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translate into import-heavy procurement, which solves short-term readiness but worsens long-term dependency.

The EU's reliance on fragmented, non-collaborative acquisition prevents the necessary industrial expansion and efficiency, leaving the industry reliant on short-term, tailored products.² Moreover, the rearmament process is uneven and leans heavily on external suppliers to deliver critical defense capabilities, such as air defense, intelligence, surveillance and reconnaissance (ISR), and long-range fires.³ These purchases improve readiness but entrench technological dependence and undermine strategic autonomy.

EU financial architecture and defense industry

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The EU Commission has repeatedly emphasized that the bloc's capital markets remain fragmented and limit scale financing.⁵ Fragmented capital markets slow industrial scaling, forcing states to import when urgency rises.

Fragmented capital markets also increase borrowing costs for defense SMEs relative to U.S. firms operating in deeper markets.

Europe lacks defense-focused venture capital and public equity markets with the depth of the U.S., limiting scale-up capacity. In turn, limited access to deep equity markets constrains SME growth. Moreover, defense-sector SMEs, which are key to innovation, face greater obstacles to accessing capital than other sectors.⁶

Defense manufacturing requires long-term financing and predictable demand. Yet EU procurement remains nationally structured, episodic, and politically sensitive.⁷ Nationally structured, short-cycle procurement reduces predictability, discouraging long-term private investment. Procurement complexity and divergent national requirements also reduce economies of scale.

Lastly, regulatory divergence and political resistance reduce the likelihood of mergers that would create scale champions.

The result is insufficient scaling capacity, which contributes to an inability to meet surging demand and increased reliance on imports. Without deeper capital market integration, rearmament risks reinforcing dependency rather than reducing it.

U.S. dependence

U.S. dependence is not accidental; it is structurally produced by urgency and fragmentation. As European defense spending increased, it purchased more U.S. equipment. U.S. Foreign Military Sales (FMS) accounted for 51% of military equipment spending by European NATO countries from 2022 to 2024, up 13% from 2019 to 2021.⁸

Europe relies on U.S. defense production for certain sectors. Nearly half of the fighter jets used in Europe are produced in the United States, while U.S. missile defense systems remain the most widely deployed on the continent.⁹

Many European systems also rely on U.S. components, including satellite infrastructure, software and operating systems, secure communications architecture, and other high-end technologies critical to modern warfare.¹⁰

U.S. reliance makes sense when it is based on alliances or rational decision-making, such as NATO interoperability requirements, economies of scale in advanced platforms, and the logic of burden sharing.

However, in other cases, it can reduce sovereignty. U.S. reliance can lead to dependence on U.S.-controlled software updates; export-control vulnerabilities, like the International Traffic in Arms Regulations (ITAR); or strategic chokepoints, such as satellites. It can also lead to supply chain lock-in effects, where the EU is tied to U.S. technology and supply chains for many years, making it expensive to switch to domestic alternatives.¹¹

U.S. dependence can reduce EU sovereignty when it constrains independent operational decision-making or limits the EU's ability to sustain military operations without U.S. authorization or industrial support.

Financing rearmament

Germany is expected to spend over €108 billion on security and defense in 2026, up from €87 billion in 2025.¹² However, it remains constrained by its constitutional debt brake, despite amending its constitution last year to exempt some military and intelligence spending.

France and Italy have strategic ambitions and strong defense industries but face high public debt. Sustained increases risk market pressure and political resistance. For example, less than 20% of Italians surveyed viewed security and defense as a top priority, the lowest in the EU.¹³

In Poland and the Baltics, high threat perception drives rapid increases in spending. Fiscal sustainability is secondary to the urgency of deterrence. Poland, Lithuania, and Latvia were the only three countries on a definitive path to meet NATO's 3.5% core expenditure target as of August 2025.¹⁴

Spain's rearmament trajectory has been slower, reflecting a lower level of threat perception and domestic political opposition from members of the current government coalition. Spain has insisted it would only need to spend 2.1% of GDP to meet NATO's core military requirements.¹⁵

EU defense spending reflects a distributive conflict problem - the constraints facing EU member states include diverging national threat perceptions, domestic and electoral politics, and defense-industrial lobbying. Countries with high threat perceptions prioritize rapid rearmament and deterrence over long-term fiscal sustainability or debt limits. Voters also tend to prioritize social

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welfare, health care, and education over defense. And support for defense spending generally splits on party lines, conservatives are generally more in favour than those on the left. Lastly, defense industry lobbying influences fiscal policy by steering government contracts and securing funding for long-term programs that are hard to stop once started.

Joint borrowing

The SAFE instrument, adopted in May 2025, allows the European Commission to raise €150 billion on capital markets to finance long-term loans. It aims to support industrial-scale operations and joint procurement to address fragmented markets and reduce reliance on non-European suppliers. In January, the first wave of funding valued at approximately €38 billion was approved for eight member states, including €10.5 billion for Spain.¹⁶

The EU's experience with NextGenerationEU funds demonstrated that joint borrowing could mobilize large-scale financing while lowering borrowing costs for high-debt states. Some member states have since advocated for joint European debt to fund a massive surge in defense spending, though other states oppose debt mutualization for defense and other purposes, arguing that the joint debt deal during the COVID-19 pandemic was exceptional.¹⁷ Despite some advancement with the SAFE instrument, mutualizing debt for defense spending is thus not likely to move forward anytime soon.

Financial institutions

The European Investment Bank (EIB) has expanded its support for security-related investments. It removed the dual-use mandate to allow "pure military" investments and reached €4 billion in expenditures in 2025, with another €4 billion planned for 2026.¹⁸ This marks a normalization of defense as a legitimate investment sector. ESG exclusions have softened, and institutional investors increasingly treat defense as strategic infrastructure. Regulatory shifts have also reduced the reputational risk that previously constrained private bank lending to the sector.¹⁹

Without coordinated demand, financial deepening will not automatically translate into strategic autonomy

However, capital alone is insufficient. Investors require long-term contracts, predictable procurement cycles, regulatory clarity, and cross-border standardization. Without coordinated demand, financial deepening will not automatically translate into strategic autonomy.

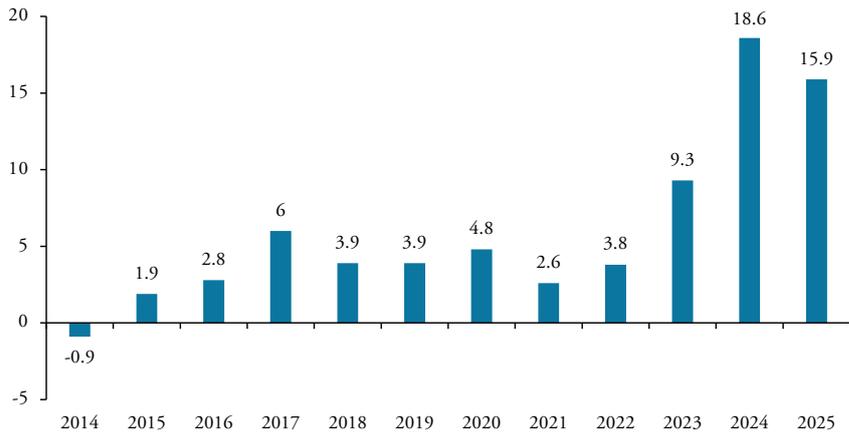
Conclusion

Strategic autonomy is not just about spending more on defense. It is a matter of restructuring the foundations of Europe's defense economy.

Absent deeper financial, industrial, and fiscal integration and joint financing, EU rearmament risks reinforcing structural dependence even as spending increases

Europe's rearmament drive exposes a structural paradox - the urgency of deterrence pushes EU member states toward U.S. imports. At the same time, strategic autonomy requires industrial scaling that depends on deeper financial and fiscal integration. Absent deeper financial, industrial, and fiscal integration and joint financing, higher defense spending risks reinforcing structural dependence rather than overcoming it.

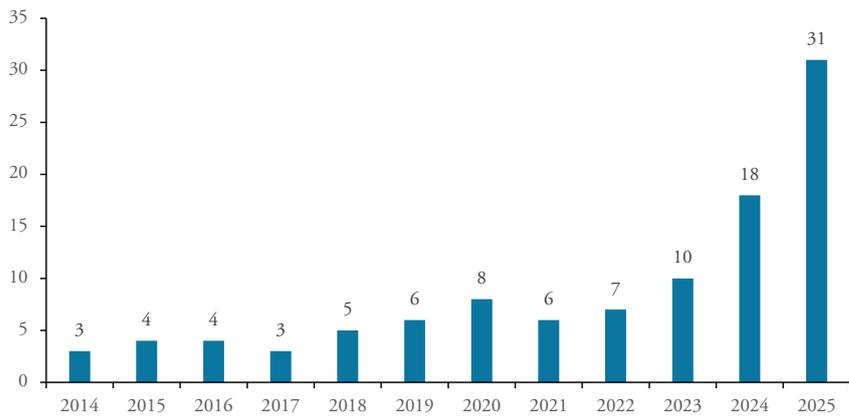
EXHIBIT 1.0 – DEFENSE EXPENDITURE GROWTH IN NATO EUROPE AND CANADA, 2014–2025 (PERCENTAGE)



Note: Data as of June 3, 2025, based on 2021 prices and exchange rates. Figures for 2024 and 2025 are estimates.

Source: NATO Defence Expenditure Report, 2025.

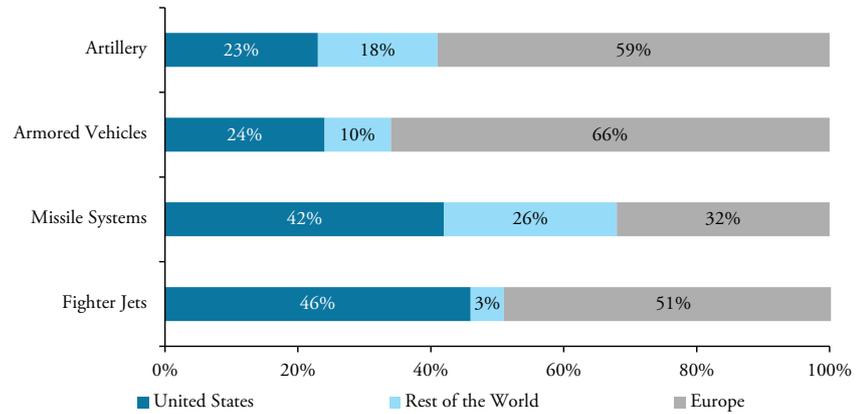
EXHIBIT 2.0 – NUMBER OF NATO MEMBERS MEETING THE 2.0% SPENDING THRESHOLD, 2014-2025



Note: Data as of June 3, 2025, based on 2021 prices and exchange rates. Figures for 2024 and 2025 are estimates.

Source: NATO Defence Expenditure Report, 2025.

EXHIBIT 3.0 – EQUIPMENT USED BY EU27, BRITISH, AND NORWEGIAN MILITARIES BY SOURCE OF PRODUCTION



Note: Percentages represent the share of military equipment produced by the United States, Europe, and the rest of the world. Missile systems refer to surface-to-air missile systems. Armored vehicles include mounted battle tanks and personnel carriers. Artillery includes self-propelled guns and mortars.

Source: International Institute for Strategic Studies, *The Guardian*.

Notes

- ¹ <https://www.nato.int/en/what-we-do/introduction-to-nato/defence-expenditures-and-natos-5-commitment>
- ² <https://www.consilium.europa.eu/en/policies/defence-numbers/#:~:text=In%202024%2C%20member%20states%20defence,by%2062.87%25%20compared%20to%202020.>
- ³ https://www.iiss.org/globalassets/media-library---content--migration/files/publications---free-files/strategic-dossier/pds-2025/complete-file/iiss_strategic-dossier_progress-and-shortfalls-in-europes-defence-an-assessment_092025.pdf
- ⁴ [https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762402/EPRS_BRI\(2024\)762402_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762402/EPRS_BRI(2024)762402_EN.pdf)
- ⁵ https://finance.ec.europa.eu/capital-markets-union-and-financial-markets_en
- ⁶ https://defence-industry-space.ec.europa.eu/study-results-access-equity-financing-european-defence-smes-2024-01-11_en#:~:text=Despite%20this%20trend%2C%20SMEs%20operating,the%20EU%20constraining%20exit%20opportunities.
- ⁷ <https://www.iiss.org/publications/strategic-dossiers/progress-and-shortfalls-in-europes-defence-an-assessment/chapter-four-transforming-european-defence-procurement-and-industry/#:~:text=NEED%20FOR%20HIGH%2DLEVEL%20POLITICAL,ambitious%20new%20NATO%20capability%20targets.>
- ⁸ <https://www.bruegel.org/policy-brief/europes-dependence-us-foreign-military-sales-and-what-do-about-it>
- ⁹ <https://www.theguardian.com/world/ng-interactive/2025/jun/24/visual-guide-can-europe-really-defend-itself-alone#:~:text=Close%20to%20half%20of%20the,66%25%20Artillery%2023%25%2059%25>
- ¹⁰ <https://www.chathamhouse.org/2025/03/eu-must-enable-its-defence-industry-boost-capabilities-and-reduce-dependence-us-systems#:~:text=The%20F%2D35%20is%20designed,the%20nature%20of%20US%20alliances.>
- ¹¹ <https://www.bruegel.org/policy-brief/europes-dependence-us-foreign-military-sales-and-what-do-about-it>
- ¹² <https://atlasinstitute.org/germanys-path-to-kriegstuchtigkeit-the-2026-defence-budget/>
- ¹³ <https://europa.eu/eurobarometer/surveys/detail/3632>
- ¹⁴ <https://www.usnews.com/news/world/articles/2025-08-27/all-nato-members-hit-old-spending-target-only-three-meet-new-goal#:~:text=Figures%20for%202025%20showed%20all,fight%20potential%20enemies.%22&text=Copyright%202025%20Thomson%20Reuters.>
- ¹⁵ <https://www.reuters.com/world/europe/nato-countries-approve-hague-summit-statement-with-5-defence-spending-goal-2025-06-22/>
- ¹⁶ https://defence-industry-space.ec.europa.eu/commission-approves-first-wave-defence-funding-eight-member-states-under-safe-2026-01-15_en
- ¹⁷ <https://www.reuters.com/markets/europe/germany-netherlands-sweden-oppose-eu-common-borrowing-2025-07-18/>
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