
Memo to the commissioner responsible for defence

Guntram Wolff

You face the major challenge of Russian imperialism in the context of a potential retreat from Europe by the United States. The outcome of the war in Ukraine will shape European security for decades. EU defence spending is neither sufficient nor efficient. You must push for expanded military production and improved procurement, making the most of the EU single market. You will have to convince EU governments of the benefits of greater integration of the defence market and a reduction in national gold-plating and local industrial policy, while also preventing unjustified protectionism against foreign producers.

You also need to focus on the innovation benefits of greater defence spending. Your role will need clear demarcation in relation to the High Representative for Foreign and Security Policy and the commissioner responsible for the single market. With some ambition, your role could include broader security and intelligence files, surpassing the weak role of the European External Action Service.

Support Ukraine and resist the Russian threat

Expand military production and improve procurement

Maximise single-market benefits

State of affairs

European Union citizens expect their governments to protect them from external threats. Ensuring territorial integrity is a core strategic, political and economic priority and any infringement of it would have incalculable consequences for the EU. While national forces provide for security, they also provide a European public good. In defending national territory and thereby EU territory, they protect neighbouring countries and contribute to collective deterrence. EU treaties foresee the possibility of mutual defence support to be provided to other EU countries. In surveys, European citizens want the EU to play a larger role in defence. In this context, you need to reflect on three major issues.

Europe faces the biggest threat to its security since the end of the Cold War

Russian neo-imperialism

Europe faces the biggest threat to its security since the end of the Cold War. Russian imperialism is an existential threat to Ukraine and may well be a direct threat to EU countries. The outcome of the war in Ukraine will shape European security for decades. Putin's Russia might be emboldened to further territorial conquests if it succeeds in Ukraine, and in this scenario would be able to draw on the joint resources of 140 million Russians and 40 million Ukrainians. The credibility of NATO's Article 5 deterrence and the EU's mutual defence obligation¹ would then be tested. But Putin's totalitarianism is not only dangerous in countries under his control and in Russia's neighbourhood. Russia has engaged in hybrid warfare, influence operations, disinformation campaigns and interference in elections and referenda in many EU countries, the United Kingdom, United States and other allies.

European defence spending exceeds that of Russia. Yet Russia's ammunition production capacities are greater than that of all NATO allies. Moreover, Russia – while having suffered significant losses in land forces in Ukraine – has been able to reconstitute that force; its army is now 15 percent larger than when it invaded Ukraine in February 2022, and has learned significantly on the battlefield.

1 Treaty on the Functioning of the EU, Article 42(7): *"If a Member State is the victim of armed aggression on its territory, the other Member States shall have towards it an obligation of aid and assistance by all the means in their power."*

In response to Russia's attack on Ukraine, European countries and G7 allies have implemented various sanctions, including export controls on dual-use equipment and battlefield goods, and military, financial and humanitarian support for Ukraine. Sanctions and export controls initially limited Russia's weapons production capacity, but export controls are being circumvented. Russian weapons continue to operate with substantial amounts of Western technology (Hilgenstock *et al*, 2024).

Western allies have delivered substantial amounts of weapons and ammunition to Ukraine. To meet the greater demand for military equipment, European production has expanded but remains insufficient compared to Ukraine's needs. European ammunition stocks have therefore declined substantially. As the amounts delivered to Ukraine are insufficient for it to hold its position, Russia is making territorial gains. Europe is critically dependent on weapon imports to stabilise its security situation while expanding the European Defence and Technology Industrial Base (EDTIB). The US is Europe's key foreign supplier of weapons.

US retreat

The security situation is compounded by the gradual retreat of the United States from Europe. During and since the Cold War, the US presence in Europe has been of central importance to collective security. But depending on the 2024 US election outcome, US interest in Europe in general and Ukraine more specifically may decline quickly. The questions then would be if and how Europe can organise defence with less-to-no US involvement, and how it could provide the necessary support to Ukraine to prevent a Ukrainian defeat and even empower Ukraine to liberate its full territory. The EU and Ukraine need to import military equipment and US industries dominate global markets.

Dependence on the US exists at strategic level because EU capitals have little capacity to design a security strategy, let alone agree on a common approach. The EU's 2022 Strategic Compass falls short of the leadership provided by the US. The EU is also dependent on US military capabilities, industrial capacity and financial resources. European countries lack critical military assets (for example troop deployment capacity, intelligence, satellite

Dependence on the US exists at strategic level because EU capitals have little capacity to design a security strategy

communication and geolocation, a nuclear umbrella) (Gonzales-Laya *et al*, 2024; Biscop and Murillo, 2024). Since February 2022, the US has contributed about 40 percent of total aid allocated to Ukraine. The US retreat is already visible as these financial flows have become less certain in the pre-election competition, while many influential US voices call for restraint on weapon supplies to prioritise US strategic interests in Asia².

EU defence governance

The idea of integrating European defence capacities is not new. It dates to the 1950s when a European defence community treaty had been negotiated but not ratified. Since then, European defence has been mostly organised in a NATO framework. The recent accessions of Finland and Sweden to NATO further underline the importance of NATO.

Defence is and will remain a national responsibility of the European Union's 27 countries, yet there have been some EU-level developments. In particular, the EU's Common Security and Defence Policy encompasses a Commission Defence Industry and Space directorate-general, a crisis-management and planning directorate within the European External Action Service (EEAS), an EU military staff, a Foreign Affairs Council meeting with defence ministers (with meetings prepared by the Military Committee, EUMC) and agencies including the European Defence Authority (EDA), which was created in 2004 to promote defence collaboration in the EU. The principal task of the EDA is to help EU countries spend better, including by managing joint projects and helping acquire military assets. EU governance in the defence area is thus fairly complex and decision-making is mostly intergovernmental with a unanimity requirement.

EU defence governance is complex and decision-making is mostly intergovernmental with a unanimity requirement

² See, for example, J.D. Vance, 'The Math on Ukraine Doesn't Add Up', *The New York Times*, 12 April 2024, <https://www.nytimes.com/2024/04/12/opinion/jd-vance-ukraine.html>.

Challenges

You face two sets of challenges. First, you need clarity on your job description. Second, you will have to focus on the substantial challenges facing the European defence industry, military procurement and the organisation of arms deliveries.

Defining the role

You are not a defence minister and you do not command any army (with the possible exception of the EU Rapid Deployment Capability, to be established by 2025, which is currently foreseen to be politically led by the Council and the military planning and conduct capability of the EEAS). You also have limited strategic resources, intelligence and planning capacities, which all essentially reside with member states and NATO and to a limited extent with the EEAS.

The EU will have to define how its relationship with NATO will evolve

The EU will have to define how its relationship with NATO will evolve and this will directly impact your job description. Within the EU it is still unclear how exactly your responsibilities will interact with those of the High Representative of the Union, who currently heads foreign and security policy, including on defence matters. The High Representative is in charge of the EEAS, the European Union Military Staff and chairs the Foreign Affairs Council (including in its defence composition). The High Representative also heads the EDA. Your role will also have to be defined clearly relative to that of the Commissioner for the single market, who also oversees the defence industrial agenda at the EU level.

Expanding military production and improving procurement

The war in Ukraine is turning into a war of attrition. Winning such a war is a question of production capacity, cost effectiveness and willingness to pay. You will need to show leadership in each of these three areas.

After decades of European underinvestment in defence and restrictive export permission rules, domestic production capacity was at minimal levels. Production is still too low compared to demand, despite some increases in the last two years. Defence spending and the share of spending on equipment has increased,

especially in Eastern European countries. As equipment spending increases, the defence industry will tend to grow and how the market will shape up will be a key topic for you (see Figure 1). However, imports have increased substantially, reflecting the limited capacity of EU industry to meet rising demand.

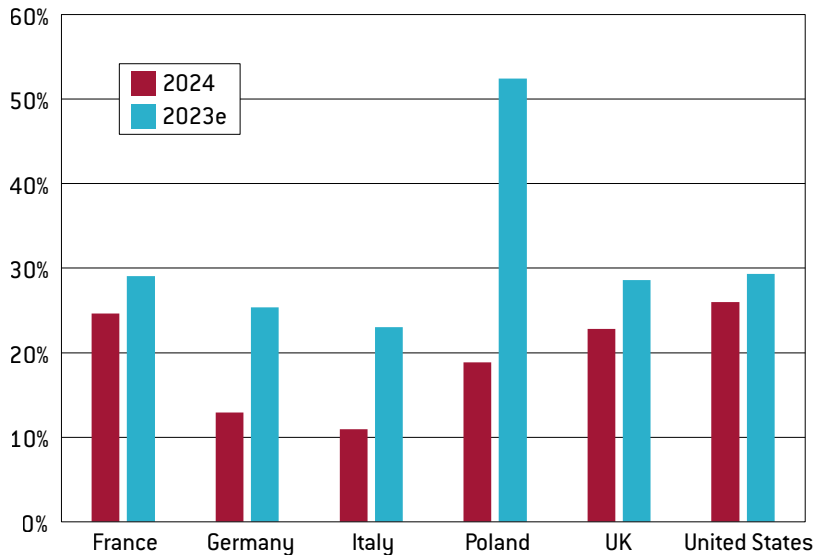
EU markets for defence products remain fragmented with national gold-plating and industrial policy preferences contributing to excessive costs per unit. Neither EDA nor the Defence Procurement Directive and the Intra-Community Transfers Directives (2009/81/EC, 2009/43/EC), nor the Permanent Structured Cooperation (PESCO), a mechanism agreed by 26 EU member states to advance cooperation on defence, have addressed the issue. The defence industry strongly depends on its main customer – government – that regulates production and exports.

The home bias in procurement has allowed national champions to acquire dominant positions in some of the national markets, while still producing relatively low quantities with possibly low margins because of the limited size of the domestic market. Relatively low production numbers – related to fragmented markets – drive up unit prices. Cumbersome administrative processes hold back increases in production capacity. Because supply lags demand, unit prices of 155mm shells, for example, increased by a factor of four³. The EU defence industry also faces some critical dependencies in supply chains for some weapon systems. Speeding up the use and integration of advanced digital technology is another major challenge for European defence industry policy. Artificial intelligence and autonomous systems play increasingly important roles on the battlefield; US companies are increasingly taking the lead in this sector.

Cumbersome
administrative
processes hold
back increases in
production capacity

3 Sam Skove, 'In race to make artillery shells, US, EU see different results', *Defence One*, 27 November 2023, <https://www.defenseone.com/business/2023/11/race-make-artillery-shells-us-eu-see-different-results/392288/>.

Figure 1: Defence equipment spending as a % of total defence spending, selected countries



Source: Bruegel based on SIPRI. Note: the figure shows an indicator of arms imports that measures the volume of international transfers of conventional weapons, as opposed to their financial value, thus providing an indicator of transfers of military capability. 2023 shares are estimated. See <https://www.sipri.org/databases/armstransfers>.

In sum, Europe needs to strengthen its defence industrial base to increase output and reduce strategic dependence and vulnerabilities, while catching up and advancing the technological frontier. The European defence industrial strategy (EDIS) proposed by your predecessors is a good start but is too optimistic on the short-term capacities of the EU's EDTIB. It overemphasises the goal of reducing weapon imports and offers no concrete ideas on how to address the fragmentation of the market and reduce costs (Wolff, 2024).

Recommendations

Si vis pacem para bellum – if you want peace, prepare for war.

Two models for defence commissioner

If your role is defined narrowly, your main task will be to work on defence industrial strategy and advance European armament. You will rely on the EU's regulatory powers to advance production and the functioning of the single market for defence. A small European Defence Fund will give you a limited instrument to advance defence research and development.

In this scenario, you would cooperate, possibly under the authority of the High Representative, on the nexus between defence and security strategy and industrial policy. The High Representative heads the EDA and manages with member states the European Peace Facility, the financial instrument to support weapon purchases. Your role would be to support the High Representative in ensuring the coherence of the overall package and that defence industrial policy measures are fully anchored in the Commission's broader industrial policy strategy.

Armaments policy and joint procurement

However, if your role is defined more broadly you might have greater authority over armaments policies, joint procurement and, possibly, also the preparation of military strategy and military intelligence. Similarly to a national context, in which the foreign ministry is not in charge of defence but rather of the diplomatic services, it would make sense to transfer significant parts of the EEAS military and intelligence operational and executive capacity to the Commission under your authority. This model would overcome the weakness of the EEAS model in the face of the relatively large influence of member states, and would create a more powerful European Commission with major geopolitically relevant powers in trade, finance, single market, intelligence and defence procurement.

The advantage of this model would be to advance a European strategic culture and military capabilities. The transfer of existing EU intelligence and EU military staff to your authority would

improve operational effectiveness in providing intelligence needed for executive decision making to the Council and the Presidents. The Commission President could rely on you to prepare strategic option papers reflecting European interests, which would be brought before the European Council. You would automatically participate in all Foreign Affairs Council meetings, particularly those with defence ministers. In that constellation, you should provide intelligence to ministers and update them on the defence industry and support for Ukraine. The High Representative role would correspondingly become focused on foreign affairs, leading the diplomatic missions and chairing the Foreign Affairs Council. The advantage of that model would be to clearly strengthen the Commission as the EU executive while moving the High Representative to the Council, effectively bringing to an end the current, ineffective 'double-hat' construction in which the High Representative is in the Council and the Commission at the same time.

Defence industrial strategy

To boost production, reduce prices and advance innovation in defence, your most powerful tool will be the single market. Integrating the single market and overcoming national biases in defence procurement is a difficult task. You will have to convince member states of the benefits of greater integration of the defence market and a reduction in national gold-plating and local industrial policy. Increasing competition and increasing the size of the market will help the European defence industry to lower prices while increasing output. Reducing fragmentation and increasing competition will of course be resisted by national industries and governments, as it has in many other sectors. In defence, powerful arguments will be made about how important specific national requirements for military success are; you will have to judge those critically. The growing demand for defence products should provide sufficient incentives to convince companies that the increased competition is acceptable. And the long and sustained demands on public budgets will be your most powerful argument in making the case for bringing down costs through more market integration.

You will have to convince member states of the benefits of greater integration of the defence market

Joint procurement will help you integrate markets and reduce costs

Your starting point will be the European Peace Facility, a fund worth €17 billion for 2021-27 and mostly used to support Ukraine, and a European Defence Fund of €8 billion for 2021-27 to support companies with cooperative projects in defence R&D. You will have to convince those countries that are increasing their defence budgets to also allocate some funds to such EU instruments. Since some of that spending will be forward looking and will have the character of investment that should last for years, joint borrowing mechanisms will be high on your agenda, for both the funding of innovation and Ukraine support.

Joint borrowing mechanisms will be high on your agenda, for both the funding of innovation and Ukraine support

When advocating for the integration of the European market for defence products, you should not lose sight of partner countries. The UK is a major ally and defence industry player, essential for European security. Ukraine has become a major producer of weapons and many companies now want to produce in Ukraine, not only because it is relatively cheap but also to directly test new systems. In your industrial strategy, you should also advance cooperation with partners such as Japan.

The European market for defence companies is characterised by a mix of private and public companies. Experience suggests that private companies in which management operates with authority and without government intervention through government shareholding tend to perform better – with more effective and faster deliveries at lower prices⁴. You should organise EU procurement, for example by the EDA, for several member states to overcome slow, fragmented and excessively bureaucratic national procurement processes, while protecting the autonomy of defence companies to deliver the best products following market logic. You will also have to define a position towards the Franco-German development, agreed in April 2024, of a next-generation tank known as the Main Ground Combat System, a project in which you should encourage market forces and limit bureaucracy.

4 See for example Sylvia Pfeifer and Leila Abboud, 'How the Storm Shadow missile maker launched a new model of defence co-operation', *Financial Times*, 8 April 2024, <https://www.ft.com/content/3914c6b7-3f3f-4be8-8342-52f5fefa62f3>.

A greater domestic share of production may make sense in products with substantial intellectual property benefits

Deter unjustified protectionism against foreign producers

Europe benefits from importing weapons, in particular if they are cheaper and more effective than domestically produced systems. At the same time, you want to direct some of the European demand to the domestic industry to ensure that innovation in Europe advances – a major benefit of a strong defence industry. A greater domestic share of production may therefore make sense in products with substantial intellectual property benefits. This suggests focussing the EDIS domestic-share goal (to purchase a larger share from domestic producers; Wolff, 2024) on specific high-tech military equipment, rather than mass-produced products.

The defence market is undergoing huge changes with the increasing use of AI and autonomous systems. You need to ensure that new entrants into the European market find a level playing field and access to public procurement – which is dominated by large domestic incumbents. A bigger European budget could be a way to nurture new emerging high-tech firms in particular and make them truly European players.

Further single-market integration

An important question is about how EU procurement will support single-market integration. Under EDIS, a European Defence Industry Programme has been proposed, with extremely limited financial resources until the next EU budget. There is also a Structure for European Armament Programme to complement the current PESCO programme. Your role is to make these initiatives work. You will have to avoid excessive bureaucracy and make them into flexible instruments that drive innovation and industrial development.

Maintain the transatlantic relationship

Europe will remain dependent on strategic weapon imports from the US for military and capacity reasons. Also from a foreign policy perspective, purchases from the US may serve important strategic goals in the transatlantic relationship. While you want to boost domestic industrial production, you will need to approach the US with appropriate strategic embeddedness.

As you want to develop the European defence industry, you should aim to coordinate the strategies for rules on weapon exports and foster a joint understanding on which destination countries are appropriate customers for which types of weapons.

The defence industry itself also faces funding challenges. Private funding for the defence industry remains stigmatised and funding costs for SMEs are more expensive than outside the defence sector. You will have to play a major role in tackling private-sector funding bottlenecks in collaboration with the commissioner responsible for financial services.

The security situation on the continent remains fragile and your job will receive a lot of scrutiny

As you take up your position, the security situation on the continent remains fragile and your job will receive a lot of attention and scrutiny. In defence more than in many other fields fundamental differences exist among EU member states, including between France and Germany. Visionary leadership combined with humbleness and realism will be a winning mix as you approach the job.

References

Biscop, S. and B. Murillo (2024) 'PESCO: The Last Chance', *Egmont Policy Brief* 341, Royal Institute for International Relations

Gonzales Laya, A., C. Grand, K. Pisarska, N. Tocci and G. Wolff (2024) 'Trump proofing Europe: how the continent can prepare for American abandonment', *Foreign Affairs*, 2 February

Hilgenstock, B., E. Ribakova, A. Vlasyuk and G. Wolff (2024) 'Using the financial system to enforce export controls', *Working Paper* 10/2024, Bruegel

Wolff, G. (2024) 'The European defence industrial strategy: important, but raising many questions', *Analysis*, 19 March, Bruegel