Center for Geopolitics | JPMorganChase

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SECURITY & RESILIENCY INITIATIVE

Now Comes the Hard Part: Europe's Defense Industrial Inflection Point



JPMorganChase

Key Takeaways:

- **Europe's rearmament problem has changed.** Political will and capital are finally moving; the constraint is increasingly Europe's ability to translate them into industrial output.
- **The hardest choices are political, not technical.** Building at scale means deciding whose systems survive, whose factories get built, when to buy foreign, and how much fiscal and economic pain governments will tolerate in pursuit of greater autonomy. Europe must confront three fundamental tensions: scale versus sovereignty, urgency versus autonomy, and ambition versus industrial capacity.
- **If Europe gets this right, it could change more than Europe's military balance.** A larger European Defense Industrial Base (EDIB) could redistribute power within Europe, alter transatlantic industrial relations, give Europe new leverage in the Gulf and Indo-Pacific, and create a more strategically autonomous—and consequential—European actor.

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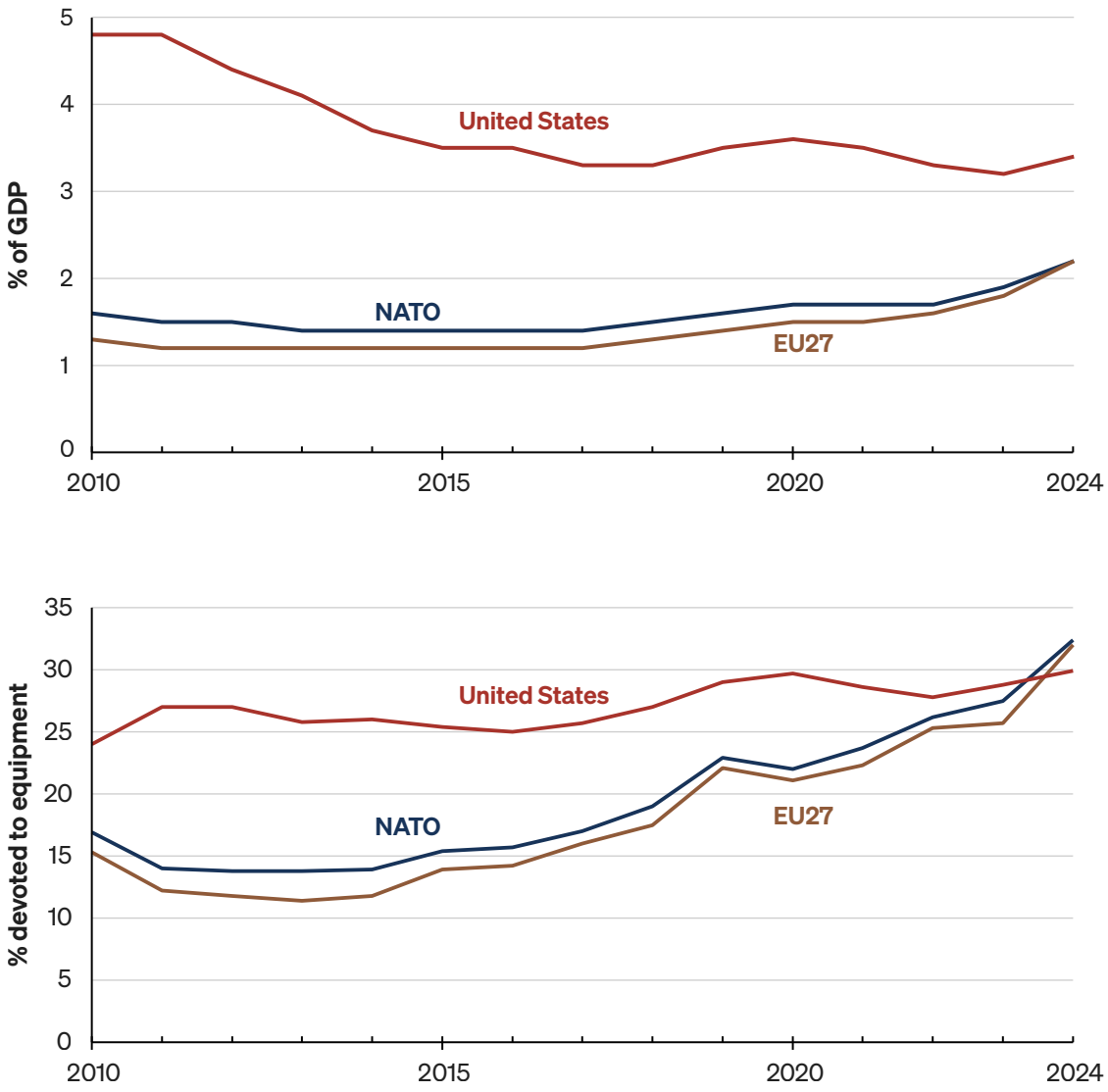
Introduction

Europe is in the midst of its most significant security shift since the end of the Cold War. **Europe's response has been an historic rearmament push.** In 2025, European allies and Canada increased defense spending by 20% year over year. All NATO allies now spend at least 2% of GDP on defense, and a growing number are making moves to reach 3.5%.

It also is a genuinely exciting time for Europe's defense industry. Momentum and private capital are flowing into European defense at a scale that would have seemed unlikely just a few years ago. In January 2026, **Czechoslovak Group (CSG) completed a record-setting €3.8 billion IPO, the largest defense listing ever and Europe's biggest IPO since 2022. Meanwhile, a new generation of European defense-tech firms has surpassed $5 billion valuations,** including Helsing, a German defense AI and software company; Quantum Systems, a German manufacturer of unmanned aerial systems; and Tekever, a Portuguese-British drone company.

The influx of private capital is helping fuel growth, but policymakers are aiming for something broader: first, more overall production at competitive costs, and second, a "full-stack" European defense industrial base (EDIB) capable of designing, producing, and sustaining more of the systems European militaries require. At the 2026 Ankara NATO Summit, Secretary General Mark Rutte called for a "defense industrial revolution," while several allies pressed for a more explicitly homegrown industrial agenda.

Figure 1. The End of the Peace Dividend: Europe's Defense Spending U-Turn
Defense expenditure



Source: European Union Institute for Security Studies, Jan Joel Andersson.

Europe's rearmament problem has therefore changed. **Political will is no longer the principal constraint. Increasingly, neither is money—at least in the near term. The key challenge now is converting both into durable military industrial power.**

Doing so will force Europe to navigate three fundamental tensions.

- **First, scale versus sovereignty:** Europe needs greater consolidation and common procurement to achieve economies of scale, even as governments seek to preserve national champions, jobs, and industrial capacity at home.

- **Second, urgency versus autonomy:** Europe needs capability now, but reducing dependence on foreign suppliers requires investments that may take years to bear fruit.
- **Third, ambition versus industrial capacity:** Higher defense budgets will matter only if Europe can marshal the energy, materials, workforce, manufacturing capacity, capital, and innovation needed to turn spending into output.

How Europe resolves these tensions will determine more than the success of its defense buildup. It could redistribute economic and political power within Europe, reshape transatlantic industrial ties, create new sources of geopolitical leverage abroad, and ultimately give Europe greater strategic weight and agency on the global stage.

This report proceeds in two parts. Part I examines the three tensions that will determine whether Europe can convert today's rearmament surge into a sustainable and competitive defense industrial base. Part II examines what happens if it does: the second- and third-order geopolitical consequences of a more capable and autonomous European defense industry.

The Many Europes

Although this report refers to the "European" Defense Industrial Base, Europe is not a homogeneous bloc. Here, "European" describes an interconnected industrial and strategic ecosystem of firms, suppliers, researchers, financiers, and governments spanning institutional and national borders. It generally includes the EU and European NATO members (including the U.K.).

"A Europe that can mobilize capital, scale innovative companies, consolidate defense production, reduce strategic dependencies, and generate stronger growth would be a more capable security partner and a more resilient economy."

— Jamie Dimon, *Wall Street Journal*, September 2026

Part I

Three Tensions That Will Determine Europe's Defense Industrial Future

Europe has committed to rearmament. The harder question is whether it can translate that commitment into a defense industrial base capable of producing at greater scale, adapting to changing battlefield requirements, and sustaining itself long after the current spending surge subsides.

Doing so will require Europe to navigate three tensions that run through nearly every major defense-industrial decision it faces:

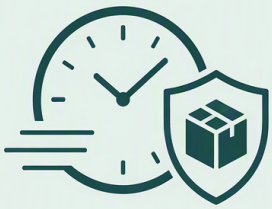
Three Key Questions Facing EDIB Expansion

#1: Scale vs. Sovereignty



Can European governments give up enough national control to achieve continental scale?

#2: Urgency vs. Autonomy



Can Europe meet today's security requirements without locking in tomorrow's dependencies?

#3: Ambition vs. Industrial Capacity



Can Europe's industrial system absorb the money now flowing into defense and sustain the build-up over time?

These tensions are deeply interconnected. Decisions about what Europe builds will determine where investment and industrial capacity accumulate; what it buys today will shape the dependencies and capabilities it carries tomorrow; and the strength of Europe's underlying industrial base will determine whether today's rearmament produces durable military power—or a temporary spending boom.

Tension #1

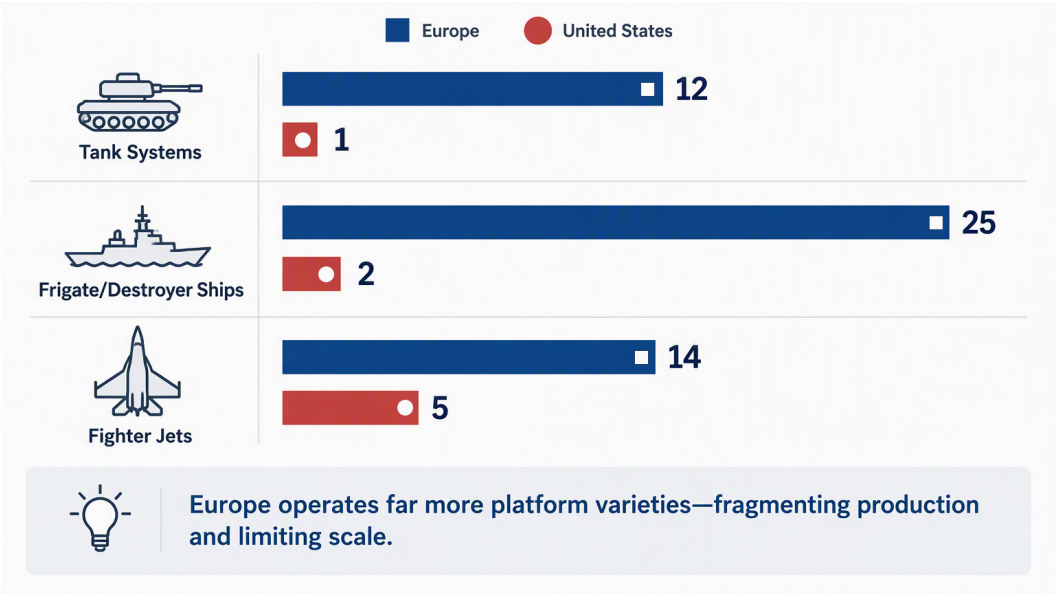
Scale vs. Sovereignty: Can Europe Get Bigger by Building Less?

Europe has a scale problem disguised as a sovereignty problem. Decades of nationally-driven procurement have produced a continent with substantial defense industrial capacity—but fragmented across too many platforms, production lines, and national champions.

The economic case for consolidation is straightforward. Complex platforms such as fighter aircraft, ships, and advanced weapons systems are increasingly expensive to develop and produce. Pooling demand allows countries to spread those costs across larger orders, extend production runs, and achieve economies of scale.

Europe has often done the opposite. National governments have sought to preserve domestic production, jobs, and industrial champions, contributing to a proliferation of overlapping systems. European countries collectively operate roughly **178 major weapons systems, compared with about 30 in the United States.***

Figure 2. Europe's Arsenal of Redundancy
Varieties of defense platforms in Europe vs. the United States



Source: Data from Munich Security Conference Research, 2018.

*Major weapon systems include tanks, armored fighting vehicles, fighter aircraft, attack helicopters, anti-ship and air-to-air missiles, destroyers/frigates, and nuclear and conventional submarines.

The result is smaller production runs, reduced economies of scale, and higher costs. Historically, only around **18% of European defense procurement has been conducted collaboratively across member states**, well below the EU's own 35% benchmark.

But consolidation runs into a fundamental political problem: **defense production distributes economic power.** A new production line means jobs, investment, technology, supply chains, and potentially decades of economic activity. A July 2026 study found that European regions hosting defense-industrial facilities tend to be wealthier, more populous, and more highly educated than comparable regions without them. For national governments, the incentive to keep those benefits at home is powerful. That means European governments must coordinate not only **what to build but where to build it—and who gets the economic benefits.**

The European Commission estimates that the structural fragmentation and lack of industrial cooperation among EU member states cost between €25 billion and €100 billion annually in lost efficiency. This "fragmentation tax" effectively means that Europe loses roughly 10% to 30% of its defense purchasing power every year to bureaucratic and industrial redundancies.

FCAS: The European Dilemma in Miniature

The Future Combat Air System (FCAS) illustrates how quickly the logic of European scale can collide with national sovereignty. The Franco-German-Spanish fighter program sought to pool resources around a common next-generation capability. Instead, it became mired in precisely the tensions confronting Europe's broader defense-industrial project. Unable to overcome these differences, France and Germany shelved the FCAS project entirely in summer 2026.



The partners disagreed first over **what to build**. France sought a lighter aircraft capable of supporting its nuclear deterrent and operating from aircraft carriers, while Germany favored a more conventional land-based aircraft oriented toward NATO missions. **Different threat perceptions, military doctrines, and operational requirements pulled a supposedly common platform in different directions.**

They also disagreed over **who would build—and control—it**. Dassault and Airbus clashed over program leadership, industrial workshare, intellectual property, and technology sharing. What began as an effort to overcome European fragmentation ultimately reproduced many of the national rivalries it was intended to solve.

FCAS captures the central dilemma facing Europe's defense-industrial buildup: Europe cannot simultaneously maximize national workshare, preserve every national champion, minimize duplication, and achieve continental scale.

The paradox is that greater European strategic autonomy may require individual European governments to surrender some national industrial autonomy. Whether they are willing to do so will determine whether today's defense spending produces a genuinely larger European defense industry—or simply more national defense industries.

Tension #2

Urgency vs. Autonomy: Buy Now or Build for Later?

Europe is trying to solve two different defense problems on two different clocks. It needs to arm Ukraine and deter Russia now. It also wants to reduce its long-term dependence on the United States and other foreign suppliers. **Those objectives are complementary over time—but can conflict sharply in the near term.**

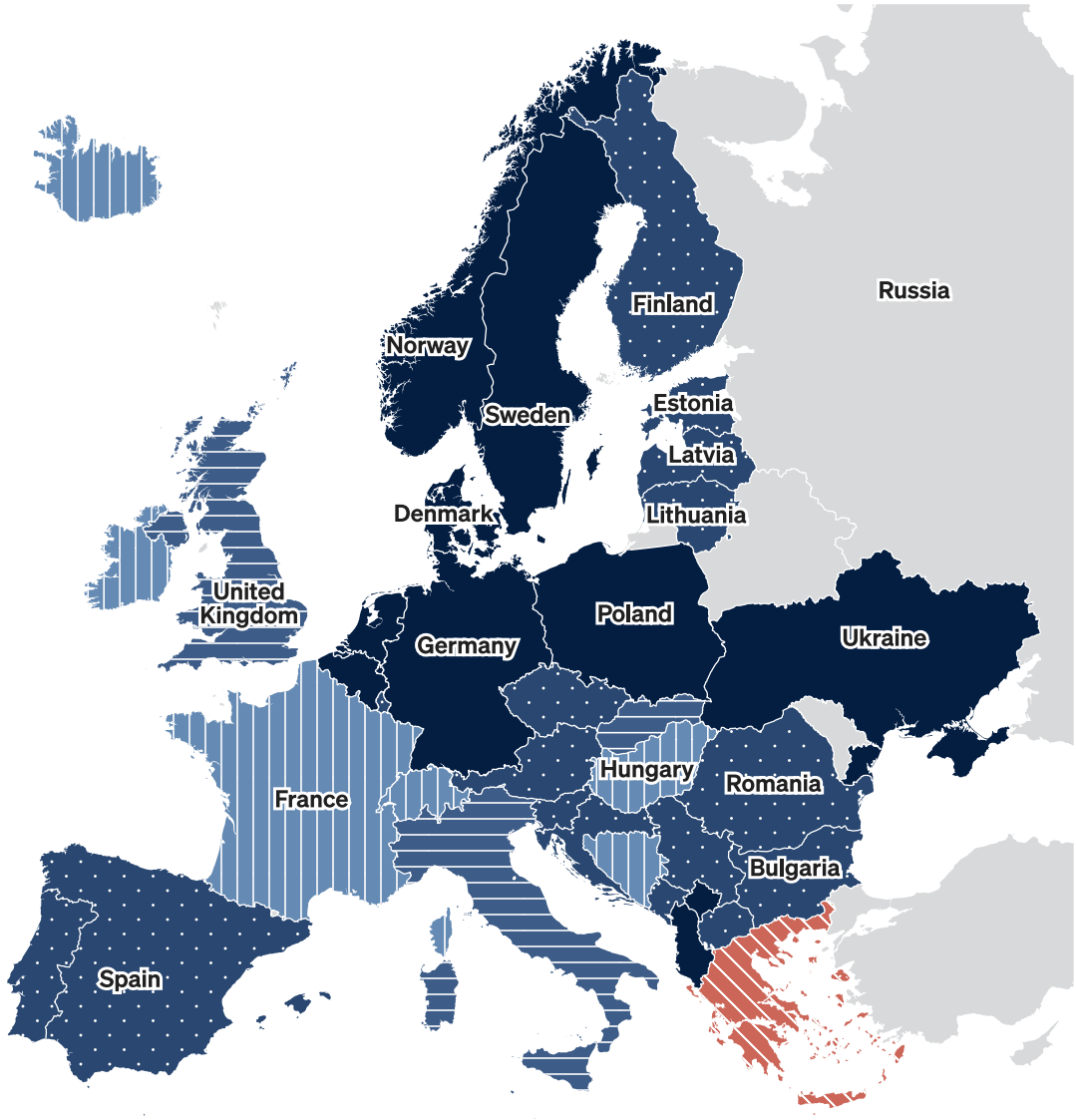
Nowhere is that tension clearer than in procurement. Building greater European industrial sovereignty requires directing more demand toward European suppliers and giving industry time to expand capacity. But European alternatives to equipment long procured from abroad can take years to develop and deliver at scale. For governments confronting immediate readiness gaps, waiting carries its own strategic cost.

Geography helps determine how countries price that tradeoff:

- **In the east, the threat is immediate.** For Poland, the Baltic states, Finland, and other countries closer to Russia, speed, availability, and battlefield credibility therefore tend to outweigh industrial sovereignty: a proven American or South Korean system available in two years may be more valuable than a European alternative arriving in seven.

- **Countries further west generally perceive more room to maneuver.** France has been the clearest advocate of "buy European," even where doing so entails longer delivery timelines, while other Western European governments are seeking to use higher defense spending to expand domestic production and reduce long-term dependence on foreign suppliers.
- **Germany sits somewhere between the two:** its significant readiness requirements have kept Berlin open to American and Israeli systems when European alternatives are unavailable or too slow.

Figure 3. Different Maps, Different Clocks: The Geography of Defense Spending
Military expenditure change in Europe, 2022–2025

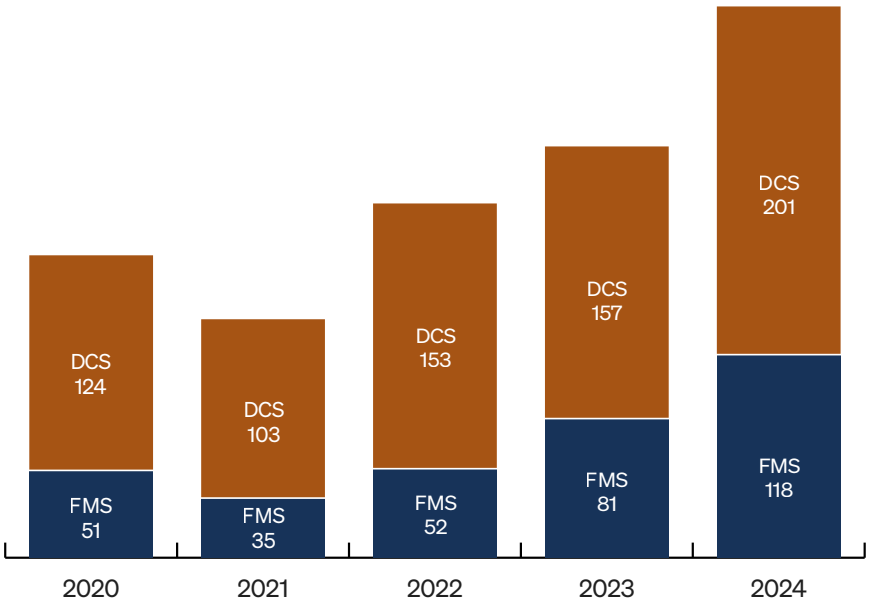


Source: SIPRI, CSIS

The Autonomy Gap

For all the political momentum behind "Buy European," procurement patterns illustrate how difficult it will be to reduce foreign dependence quickly. **As Figure 4 shows, American-made defense products continue to play a major role in European rearmament, with U.S. Foreign Military Sales (FMS) and Direct Commercial Sales (DCS) to Europe rising substantially in recent years.**

Figure 4. Talking European, Buying American
U.S. arms transfers (FMS and DCS), 2020–2024 (billions of dollars)



Notes: Total FMS include (1) arms sales financed by U.S. allies and partners, (2) sales funded through the Foreign Military Financing program (FMF, Title 22), and (3) sales supported by the Department of Defense's Building Partner Capacity programs and certain Department of State programs under the Foreign Assistance Act (FAA). Data captures the 2022–2024 period, during which support for Ukraine accounted for a significant share of U.S. arms transfers. As additional Foreign Military Sales (FMS) cases are approved and executed, these figures may evolve over time.

Source: Defense Security Cooperation Agency (DSCA), 2025. Graphic Adapted from: Hélène Masson, Foundation for Strategic Research – Paris, 2026.

At the same time, European policy is increasingly attempting to pull future demand toward the continent. The EU's defense strategy seeks to direct a growing share of military procurement toward European and Ukrainian manufacturers, while national governments are using higher defense budgets to expand domestic capacity.

The result is a difficult sequencing problem: **Europe can buy foreign systems quickly or build more of its own systems slowly—but in many cases it needs to do both.**

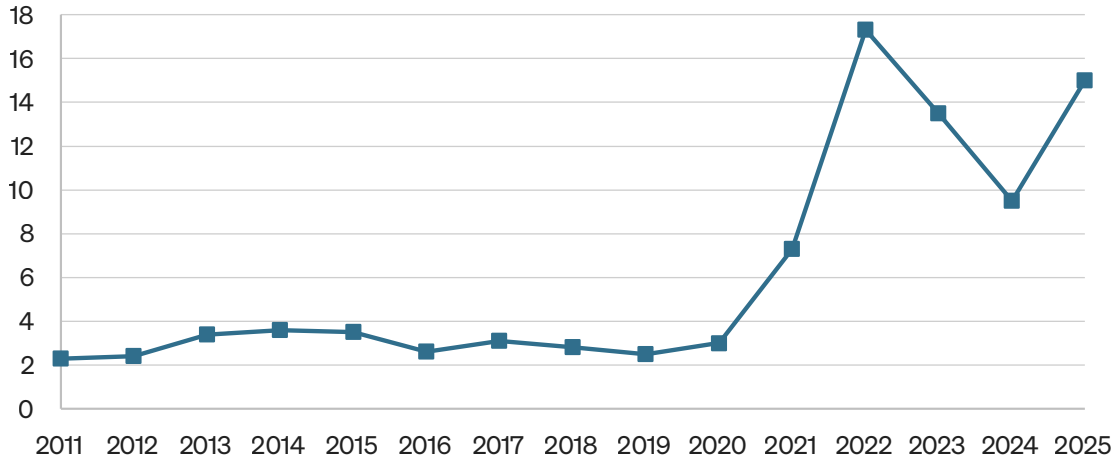
Co-Production: A Third Path

The choice between readiness and autonomy, however, is not necessarily binary. **Co-production offers a potential bridge: use foreign suppliers to meet immediate military requirements while structuring those purchases to build European industrial capacity over time.**

South Korea's rapid emergence as a major supplier to Europe, as shown in Figure 5, illustrates the model. Increasingly long Foreign Military Sales (FMS) delivery timelines and ITAR export controls further complicate this dynamic, leading some countries that want to procure quickly to rethink purchases from the United States as the pathway.

Many are turning to South Korea. European countries accounted for more than half of South Korea's major arms exports between 2020 and 2024, with Poland alone accounting for 46% of South Korean major conventional weapons exports.

Figure 5. The Seoul Solution
Defense exports, 2011–2025 (millions of USD)



Source: Official national data, processed by the author.

South Korea: Europe's Here-and-Now Supplier

South Korean suppliers have paired deliveries with greater certainty of supply, an especially attractive proposition for countries concerned that U.S. orders could be resequenced to meet domestic military needs or respond to other conflicts.

→ **Poland Chooses South Korea's FA-50** Poland purchased 48 FA-50 light combat aircraft from Korea Aerospace Industries (KAI) to rapidly replace its aging MiG-29 fleet. Warsaw initially sought additional F-16s, but production timelines proved challenging. The FA-50 manufacturer delivered the first aircraft within a year.

→ **Norway Chooses South Korea's K9 Thunder** Norway selected South Korea's K9 Thunder self-propelled howitzer over competing U.S. and European systems, including the German PzH 2000 and U.S. M109. The K9 offered a combination of lower cost, rapid delivery, and strong performance in Arctic conditions. Today, it is the world's most widely exported tracked self-propelled howitzer, with orders from 11 countries.

South Korean suppliers have also paired rapid initial deliveries with local production, technology transfer, and long-term sustainment partnerships, an especially attractive proposition for eastern flank countries that need capability now but want greater domestic capacity later. **Coproduction on local soil is becoming an increasingly attractive middle way: buy from abroad, but make it at home.**

What to Watch: A More Networked European DIB?

The urgency-autonomy tradeoff could ultimately produce a different model of European defense integration than the continent has pursued in the past. Rather than every country participating in every major program, **clusters of countries with similar geography, threat perceptions, and capability requirements may increasingly build together.**

→ Eastern flank states could deepen cooperation around ammunition, land systems, and territorial defense. European maritime powers could cooperate more closely on naval systems and undersea infrastructure. Other groups may form around air defense, space, drones, or other shared requirements.

Such a model would produce a more networked European defense-industrial architecture: multiple centers of production and cooperation operating beneath the broader NATO and EU umbrellas. The challenge will be ensuring those clusters create specialization and scale rather than simply reproducing Europe's existing fragmentation in a new form.

The most likely model may therefore be neither autarky nor continued dependence, but managed interdependence: using foreign procurement to close immediate capability gaps while structuring contracts to build European production, technology, and sustainment capacity over time.

Tension #3

Ambition vs. Industrial Capacity: Can Europe Actually Build What It Is Buying?

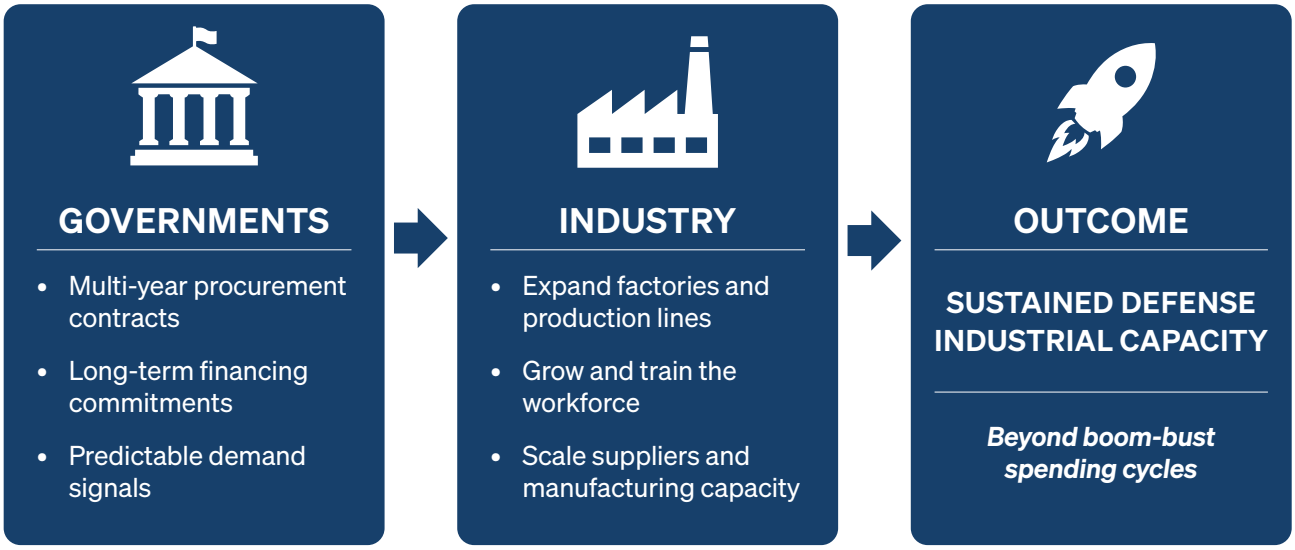
Defense budgets do not produce weapons. Industrial systems do. Europe's ability to translate unprecedented spending commitments into military capability will depend on something much broader than defense appropriations: patient capital, reliable demand, secure supply chains, affordable energy, skilled labor, manufacturing capacity, and the ability to innovate at battlefield speed.

The challenge is therefore not simply mobilizing more money. It is rebuilding an industrial ecosystem that contracted during decades of lower defense demand—and ensuring that what emerges can compete long after today's spending surge subsides.

Capital: Can Europe Sustain the Demand Signal?

Defense companies will not build factories, expand workforces, or open production lines against political pledges alone. **Long-term investments by industry require long-term signals from government.** Europe's challenge is to convert today's surge in defense spending into predictable multi-year demand that gives industry confidence to invest.

Figure 6. It Takes Two to Rearm



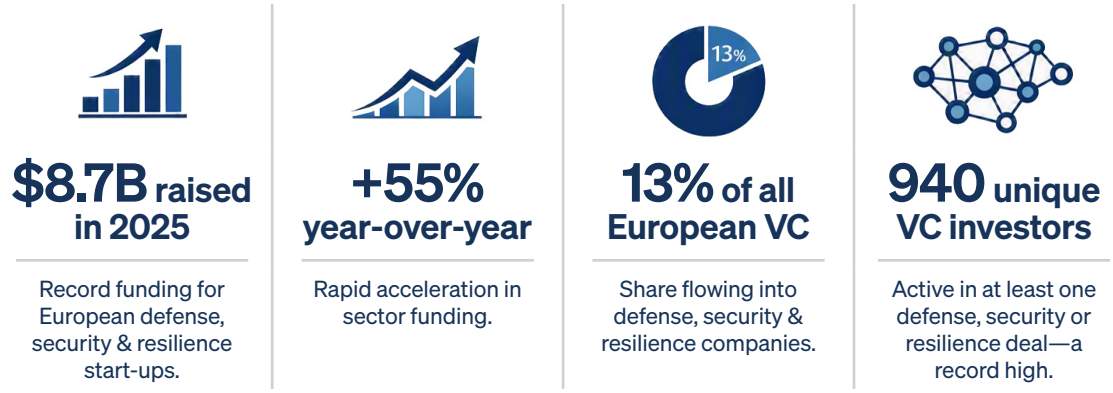
Long-term demand creates long-term investment.

Governments are beginning to do so. Germany's March 2025 decision to exempt defense and strategic infrastructure spending from its constitutional debt brake marked a striking reversal for Europe's traditional fiscal anchor. At the EU level, ReArm Europe / Readiness 2030 seeks to unlock more than €800 billion in potential defense spending, including through greater fiscal flexibility and the €150 billion SAFE loan facility for joint procurement.

Private capital is moving as well. European defense, security, and resilience start-ups raised a record $8.7 billion in 2025, up from $456 million a decade earlier, an increase of more than 1,800% (see Figure 7). A record 43% of European venture and deep-tech funding now flows to defense, security, and resilience companies.

Looking ahead, venture capital investment in European defense companies is projected to reach **$10.5 billion in 2026**, more than **300% higher than in 2025**, according to Deal Room.

Figure 7. The Arsenal of Venture Capital

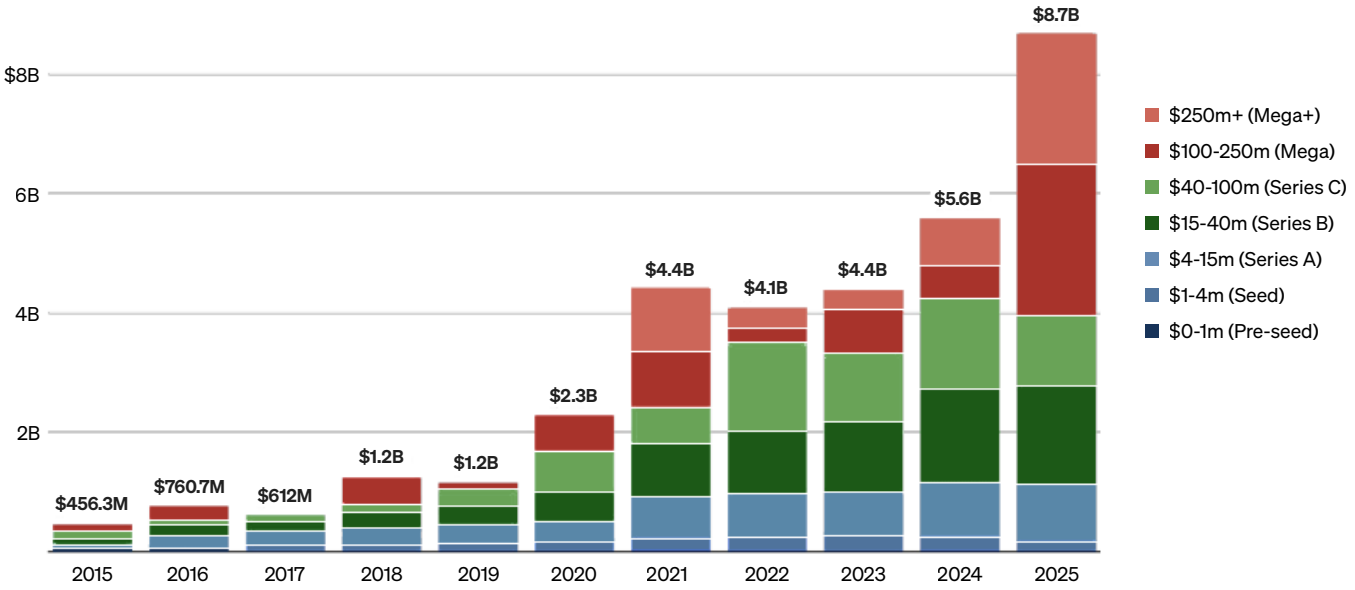


Graphic created by JPMorganChase Center for Geopolitics; Data from Deal Room/NATO Innovation Fund.

→ **In July 2026, Germany's defense startup Helsing raised $1.8 billion, the largest defense-tech funding round in European history, valuing the company at $18 billion.**

→ Helsing is not alone. Several other European defense-tech firms have now exceeded $5 billion valuations, including **Tekever** (a Portuguese-British drone manufacturer) and **Quantum Systems** (a German maker of unmanned aerial systems).

Figure 8. From Trickle to Torrent
Venture capital investment in European deep tech defense, security, and resilience startups



Source: Deal Room

Access the text version

But the harder test will be endurance. **Building factories and supply chains is a multi-decade undertaking; democratic governments operate on shorter, election-based timelines.** Public support for greater defense spending has risen across much of Europe since Russia's invasion of Ukraine and amid greater uncertainty in the transatlantic relationship.

That support becomes more fragile, however, when voters confront the tradeoffs required to pay for it. When presented with an explicit "**guns versus butter**" choice between defense and domestic priorities such as healthcare, pensions, education, and social welfare, publics in several major European countries are ambivalent at best—and often opposed to prioritizing defense. The electoral clock over the next two years is particularly packed, with elections in France, Spain, Italy, Poland, and Finland. That means politicians will have to defend their record defense spending at a time when many of their governments are facing tight fiscal squeezes.

Paradoxically, the guns-versus-butter debate may become most acute after the Ukraine conflict ends. Peace may lead some—especially in Western Europe—to perceive the immediate threat as over, eroding public support for record-high defense spending even as Europe's long-term defense requirements remain unchanged.

The debate between the British Ministry of Defense and the Treasury during the summer of 2026 illustrates how quickly consensus around stronger defense can fray when governments confront difficult fiscal tradeoffs. Disagreements about the level of funding required to deliver the UK's defense ambitions ultimately led to the resignation of the defense secretary.

Figure 9. Guns Are Popular; Butter Is Too: Defense Spending Political Reckoning

At the current time, would you support or oppose your country increasing national defense spending?
Net values, in %, change 2025 v 2026

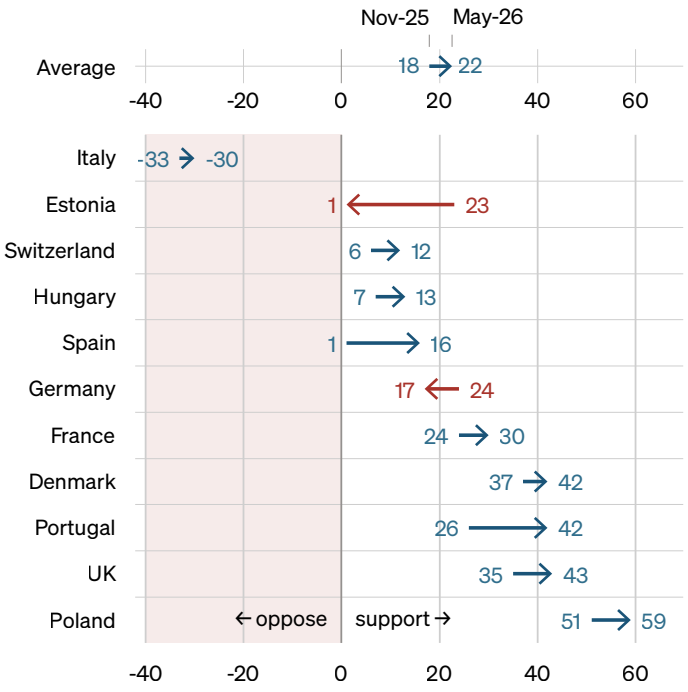
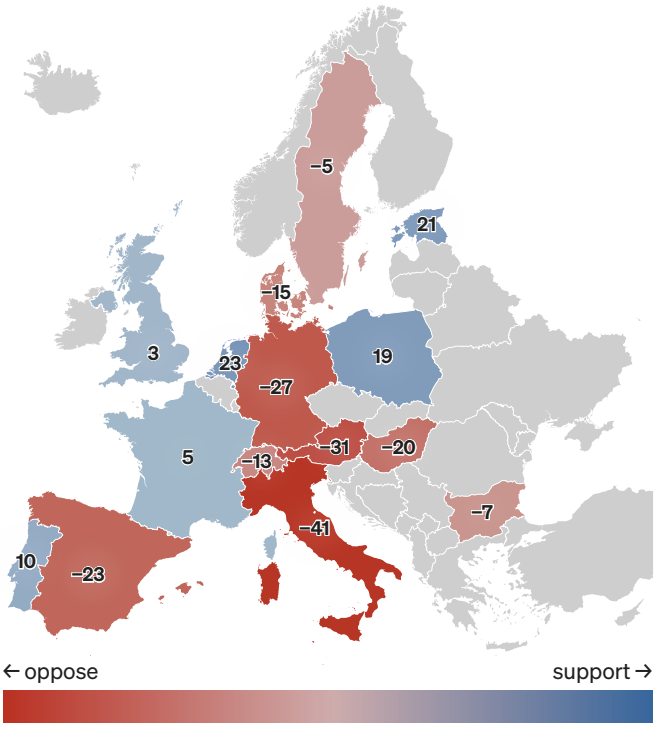


Chart shows a change in net difference between "support" and "oppose" answers.

Graphic created by JPMorganChase Center for Geopolitics; Data from ECFR-commissioned public opinion survey, conducted by YouGov, Mandate Research and Turu-uuringute in May 2026

Would you support or oppose your country accepting some cuts to public spending for the sake of investment into your country's defense? Net value, in %



Graphic created by JPMorganChase Center for Geopolitics; Data from ECFR-commissioned public opinion survey, conducted by YouGov, Mandate Research and Turu-uuringute in May 2026

Three Open Questions for European Defense Capital

Capital is flowing into Europe's defense industrial base, but that doesn't mean that Europe's funding problem is solved. Three questions remain open:

1. **Will this spending last?** Venture capital can back new entrants and technologies, but governments ultimately remain the decisive customers. **Political cycles and sustained public support will have more impact on the EDIB's long-term growth prospects than private funds.**

2. **Is this a platform-specific funding surge or system-wide capital?** Spending on weapons platforms helps primes and established manufacturers build more of what they already produce. But will capital also reach new capability builders, untested innovators, and small "mom-and-pop" sub-tier suppliers? These suppliers are often overlooked and undercapitalized, yet are essential to meeting growing production needs for both new and conventional platforms.

3. **Will this new capital spread evenly across Europe?** More money can expand the DIB without making it geographically more diverse. Established clusters attract capital because of their experienced workers, proven supplier networks, and established infrastructure. The funding surge may broaden Europe's defense industrial geography or reinforce concentrations in the UK, France, Germany, and Poland.

Europe therefore faces a mismatch of clocks: industry needs confidence in demand measured in decades, while governments make spending decisions in budget and electoral cycles. The durability of Europe's defense buildup will depend on whether today's sense of urgency can survive tomorrow's fiscal and political tradeoffs.

To help alleviate that mismatch, European institutions (principally the EU and NATO) are standing up multiple complementary mechanisms to address persistent capital and financing shortfalls (see Table 1).

Table 1. Building the Arsenal of Capital: The Proliferating Defense-Finance Complex

INITIATIVE	INSTITUTION	WHAT IT DOES	WHY IT MATTERS	STATUS
Readiness 2030 / ReArm Europe	EU	Promotes fiscal flexibility + financing	Umbrella strategy intended to mobilize up to ~€800 billion for substantially higher defense spending across Europe.	**Under Development** Implementation underway
SAFE (Security Action for Europe)	EU	Up to €150 billion in EU-backed defense loans	Lowers financing costs and supports larger, more predictable procurement orders.	**Operational** Deployment ramping up
Savings and Investments Union (SIU)	EU	Capital-market mobilization strategy	Would channel more of Europe's large private savings pool into productive investment, including strategic priorities.	**Under Development** Still being debated – early stages
European Defence Fund (EDF)	EU	~€7.3 billion in collaborative R&D funding	Supports collaborative R&D of next-generation defense technologies and industrial capabilities.	**Operational**
EDIP (European Defence Industrial Programme)	EU	€1.5 billion in industrial capacity + procurement support	Establishes a more durable EU defense-industrial policy framework.	**Operational** Initial funding deployment underway
ASAP (Act in Support of Ammunition Production)	EU	€500 million in production-expansion grants	Subsidized production to address ammunition and missile manufacturing bottlenecks.	**Completed / Superseded** Functions carried forward under EDIP
EDIRPA (European Defence Industry Reinforcement through Common Procurement Act)	EU	~€310 million in joint procurement incentives	Aggregated demand and created larger order books for European producers.	**Completed / Superseded** Functions carried forward under EDIP
EIB Security and Defense Lending	EU	Expanded eligibility to finance more security, defense, and dual-use activities	Expands access to capital for defense-related facilities, technologies, infrastructure, and supply chains.	**Operational** Expanded lending framework active
DIANA (Defence Innovation Accelerator for the North Atlantic)	NATO	Startup accelerator	Helps defense and dual-use innovators transition technologies toward operational use.	**Operational**
NATO Innovation Fund (NIF)	NATO-backed	Venture capital investment	Provides patient capital for deep-tech firms relevant to defense, security, and resilience.	**Operational**
NATO Support and Procurement Agency (NSPA)	NATO	Multinational acquisition, procurement, support, and sustainment	Converts allied requirements into multinational contracts and supports capabilities throughout their lifecycle.	**Operational**
Defence Production Action Plan (DPAP)	NATO	Industrial coordination and implementation framework	Helps allies aggregate demand, address production bottlenecks, and improve interoperability and standardization.	**Operational** National implementation ongoing
Industrial Capacity Expansion Pledge	NATO	Political commitment mechanism	Links NATO capability requirements to firm orders, long-term capacity investment, and defense-industrial expansion.	**Operational** National implementation ongoing
Defence, Security and Resilience Bank (DSRB)	Multilateral / NATO-adjacent	Planned defense-sector lending and guarantees	Would expand long-term financing options for governments, defense firms, and suppliers underserved by traditional capital markets.	**Under Development** Charter negotiated; bank not yet constituted or lending

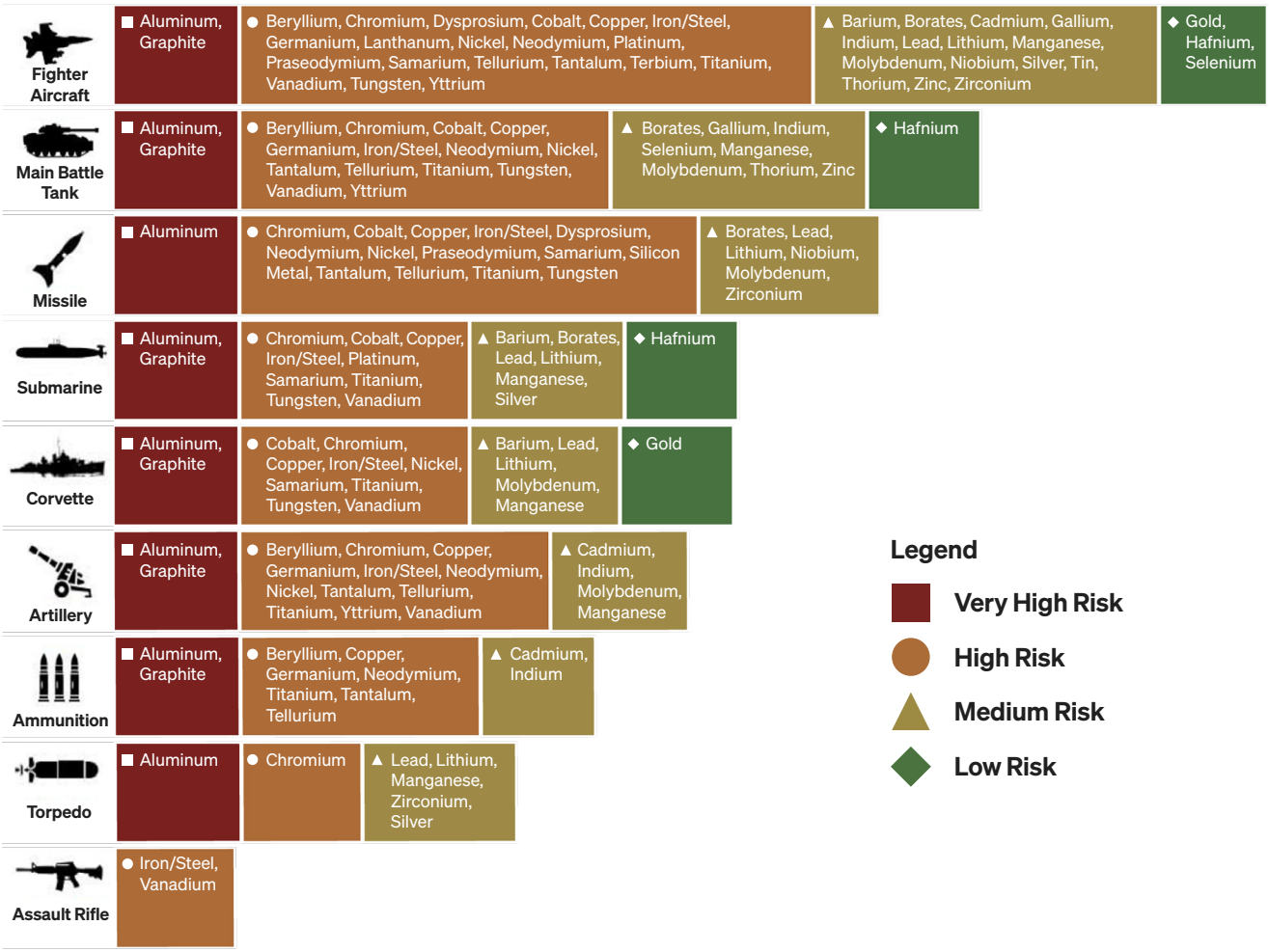
Inputs: Does Europe Still Have the Industrial Foundations?

Even sustained demand will matter little if European industry cannot secure the inputs necessary to fulfill it. **Decades of low and irregular defense demand allowed portions of Europe's supply chain to shrink, disappear, or move offshore.**

The consequences became apparent after Russia's invasion of Ukraine. In late 2023, Europe lacked sufficient propellants, explosives, specialized components, and industrial capacity to produce the 155mm ammunition it had committed to deliver. France, which ended domestic gunpowder production in 2007, is now rebuilding that capability. And Rheinmetall CEO Armin Papperger has said Europe relied on China for more than 70% of its cotton linters—a key input for nitrocellulose used in artillery propellant.

The vulnerabilities extend well beyond munitions. Modern weapons require critical minerals and strategic materials used in everything from semiconductors and flight systems to armored vehicles and submarines. NATO has identified 12 raw materials as critical to Allied defense production, increasing pressure on European governments to diversify supply chains, expand stockpiles, and secure long-term access (see Figure 10).

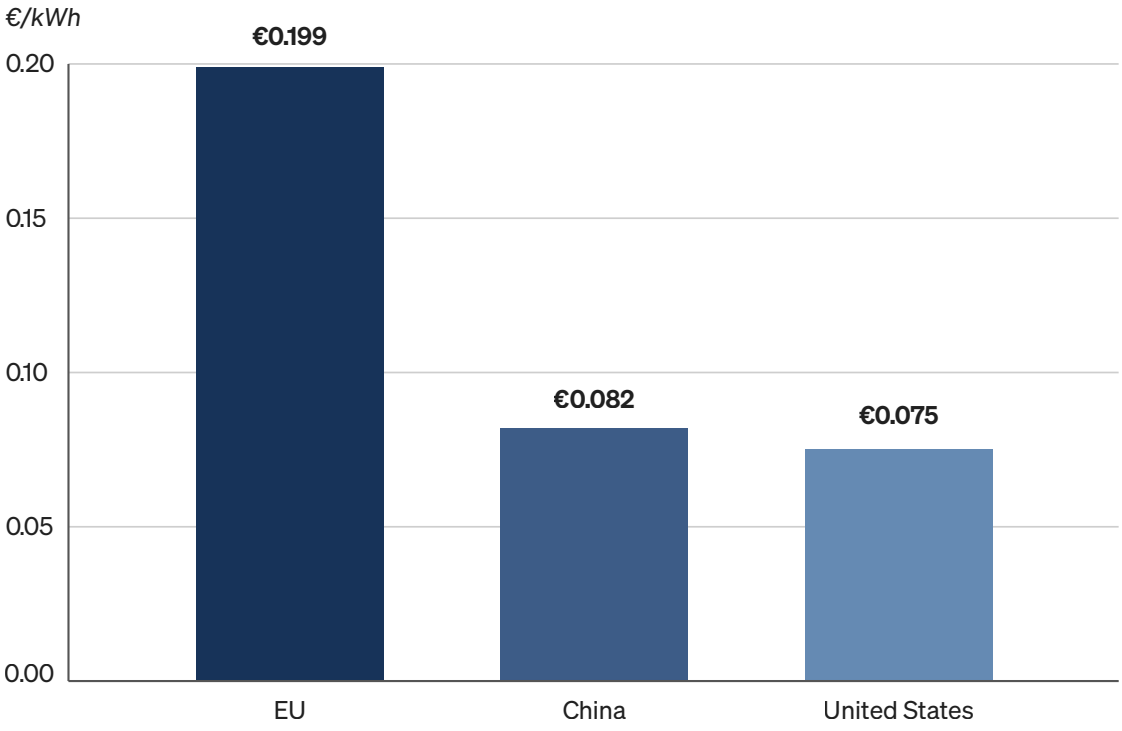
Figure 10. No Minerals, No Munitions: Europe's Material Weaknesses
Supply risk for critical raw materials in military applications



That competition will not always pit Europe against adversaries. As global rearmament accelerates, Europe may increasingly compete with the United States, Japan, South Korea, and other partners for scarce minerals, processing capacity, and strategic inputs.

Energy presents another structural constraint. Defense manufacturing is energy intensive: smelting, forging, machining, heat treatment, chemicals, and explosives production all depend on reliable and affordable power. Since losing access to cheap Russian pipeline gas, European industrial users have faced a significant cost premium over competitors in the United States and Asia. **The International Energy Agency estimates that electricity prices for energy-intensive EU industries are roughly twice U.S. levels and nearly 50% higher than in China.**

Figure 11. Europe's Expensive Electrons
Industrial electricity prices, 2024



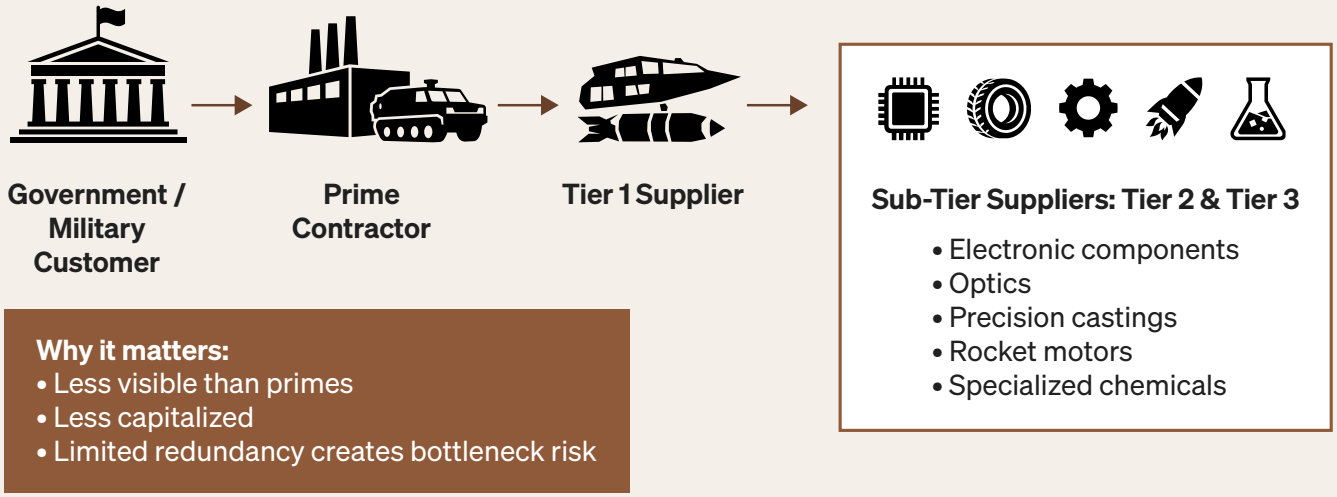
Source: J.P. Morgan AWM / Michael Cembalest, 2024 Annual Energy Report

That creates a broader strategic tradeoff. **Europe cannot rebuild a globally competitive defense industry without confronting the competitiveness of European heavy industry itself.** Efforts to lower industrial energy costs could increasingly collide with fiscal, regulatory, and decarbonization priorities.

Nor are Europe's vulnerabilities confined to headline inputs. **Tier 2 and Tier 3 suppliers** producing components such as optics, precision castings, rocket motors, electronics, and specialized chemicals are often smaller, less capitalized, and more exposed to irregular procurement cycles than major defense primes.

Rearmament spending will inject fresh capital into Europe's defense industrial base, but it may take time to filter down to the smallest suppliers—many of whom are simultaneously struggling to scale fast enough to meet a surge in orders for components and inputs. Some argue that consolidation amongst small Tier 2 and Tier 3 suppliers may be beneficial to create the scale needed to invest in production capacity and increase their procurement leverage. **Ultimately, a defense industrial base is only as resilient—and scalable—as these less visible links in the supply chain.**

Figure 12. The Weak Links Where Bottlenecks Hide
The crucial role of sub-tier suppliers

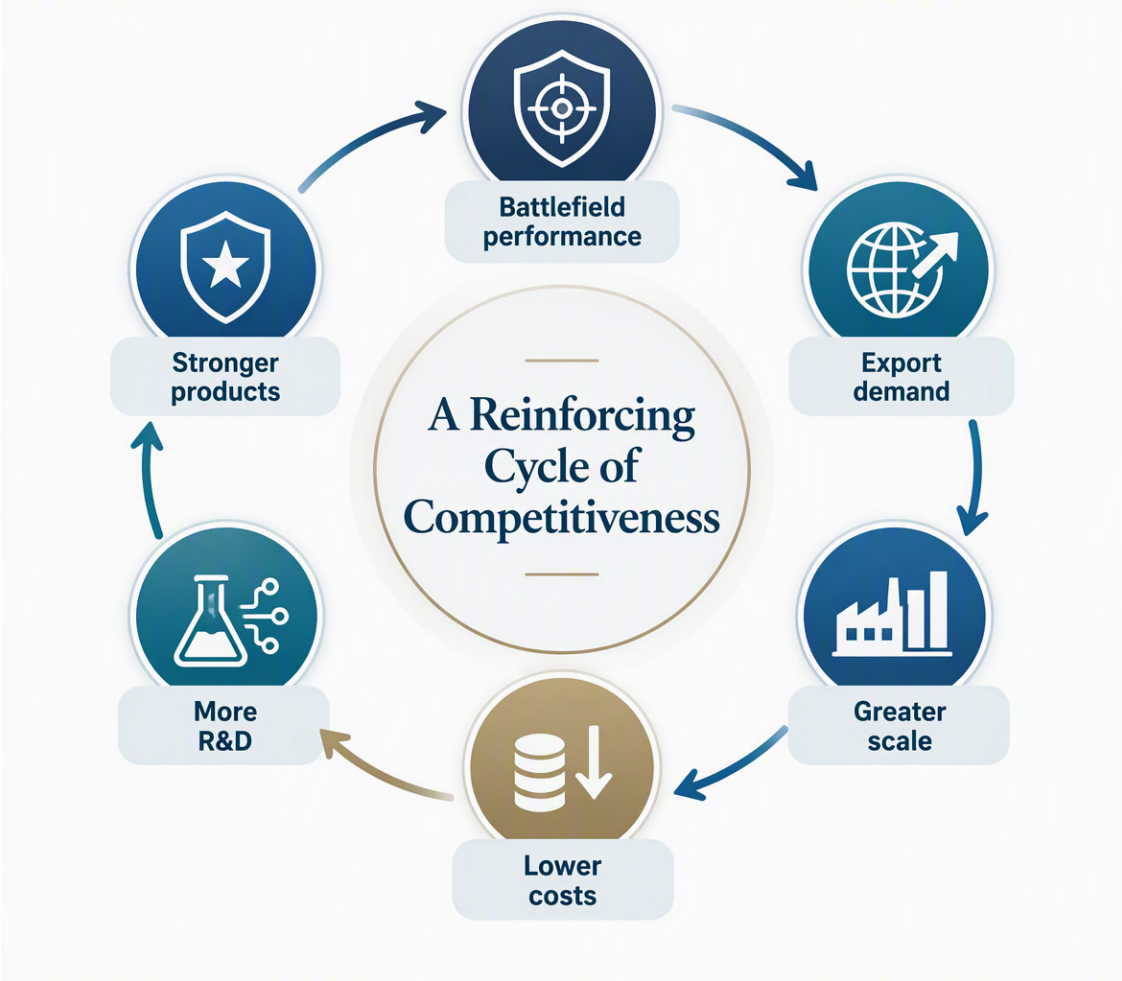


Competitiveness: Can Today's Spending Boom Become Tomorrow's Industry?

Solving Europe's immediate production constraints would still leave one final test. **A defense industry built solely around domestic procurement could struggle to sustain itself once today's extraordinary spending surge subsides.**

Competitive products generate export demand; exports enable larger production runs; scale lowers unit costs and supports additional investment in research and development. Done well, that creates a reinforcing cycle:

Figure 13. Competitiveness Reinforces Performance

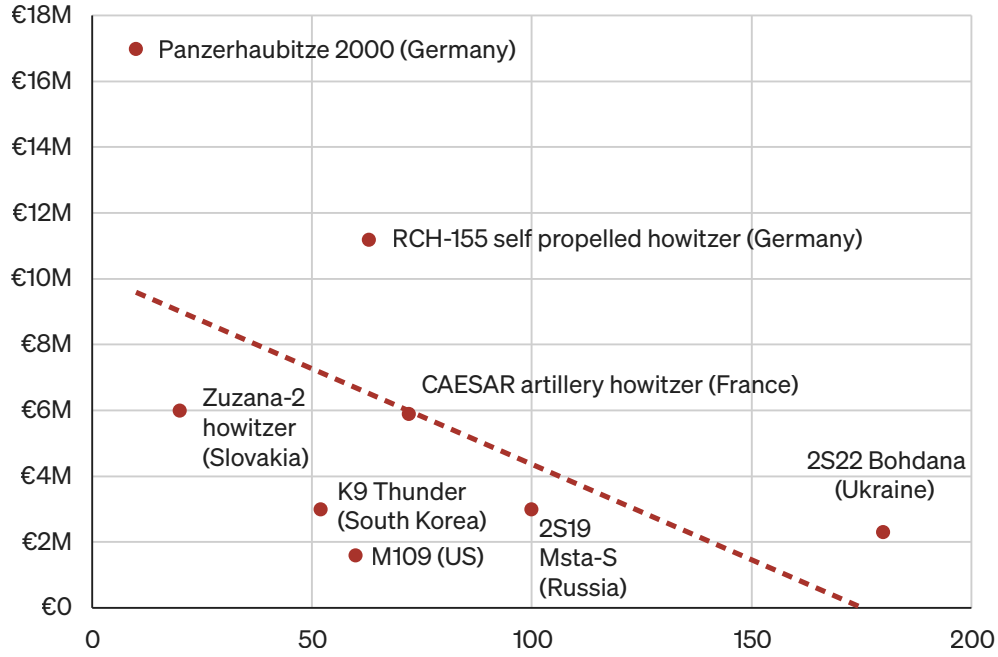


Europe's challenge is to set that cycle in motion.

Two factors will be particularly important. **First, European firms must be able to incorporate battlefield lessons faster than their competitors.** Ukraine and the Iran war are generating rapid lessons in drones, electronic warfare, integrated air defense, autonomy, and munitions consumption. Firms that can translate those lessons into products quickly will have an advantage both at home and in global export markets.

Second, those products must be competitive on cost. German and French systems are often several times more expensive than comparable Ukrainian, American, and Russian alternatives (See Figure 14 below). European manufacturers face higher energy and labor costs than many international competitors, increasing the importance of automation, production scale, and new manufacturing techniques. Ukraine offers lessons on both fronts.

Figure 14. More Bang for the Buck: The Battle for Affordability
Self-propelled howitzer cost per unit and production annual capacity



Note: Production capacity per year should be considered a lower bound estimate.
Source: Bruegel based on information released by companies and specialized press in terms of purchase agreements and delivery dates.

Learning By Fighting: Ukraine's Battlefield Innovation Loop

Ukraine has demonstrated a different model of defense innovation: **lower-cost systems, rapid production, short development cycles, and constant feedback between the battlefield and the factory.**

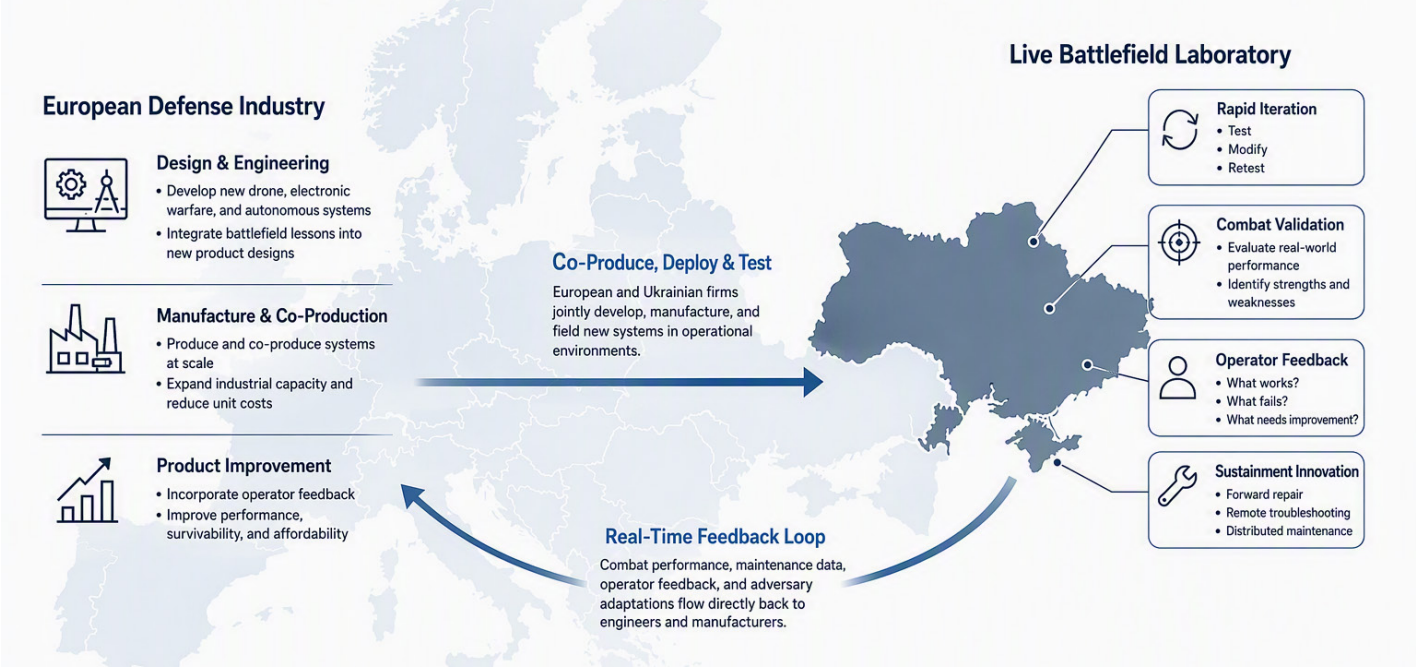
Rather than relying exclusively on small numbers of exquisite platforms, Ukraine has scaled relatively inexpensive drones, countermeasures, and other attritable systems that can be produced, modified, and fielded rapidly. Product development occurs on similarly compressed timelines: systems are designed, deployed, tested, modified, and redeployed as battlefield requirements change.

Europe can apply that model as well. Closer integration among militaries, engineers, and manufacturers could shorten development timelines and allow battlefield lessons to reach production lines faster. Ukraine's distributed repair and sustainment practices also offer lessons for reducing lifecycle costs and keeping equipment operational—an increasingly important consideration for export customers.

The larger lesson is that industrial capacity is not simply the ability to manufacture more. It is the ability to manufacture, learn, adapt, and manufacture again faster than the competition.

That capability will matter increasingly as European firms compete for export markets in the Gulf, Indo-Pacific, and elsewhere. Europe's current spending surge provides an extraordinary opportunity to build scale. Whether that scale becomes enduring industrial advantage will depend on whether European firms can pair technological sophistication with competitive costs and battlefield-speed adaptation.

Figure 15. Europe's Learning Curve Runs Through Ukraine



Source: JPMorgan Chase Center for Geopolitics

Europe's ultimate test, then, is not whether it can spend hundreds of billions of euros on defense. It is whether today's extraordinary burst of political will and capital can create an industrial ecosystem capable of competing after the urgency that created it begins to fade.

Part II

The Geopolitics of a Rearmed Europe

Europe's defense-industrial buildup will be measured in more than factories opened, production lines expanded, or euros spent. Decisions about what gets built, where it is produced, who supplies it, and who ultimately buys it will distribute economic resources, technological capacity, and political influence across Europe and beyond.

That means the consequences will not stop at the factory gate. A more capable European defense industry could shift influence within Europe, alter one of the economic foundations of the transatlantic relationship, create new sources of European leverage abroad, and present its adversaries with a larger—and increasingly important—set of targets to disrupt.

Europe's defense-industrial transformation is, in other words, becoming a geopolitical transformation. Three consequences bear watching.

1. Industrial Power Will Create New Centers of European Influence

Europe's defense buildup is creating new centers of industrial and military power beyond its traditional core. Poland, Romania, Finland, Sweden, and the Baltic states are expanding defense spending, production, and military capability at a pace that could eventually translate into greater political influence.

This would reinforce a shift already underway in European security. Countries closest to Russia increasingly shape debates over deterrence, Ukraine, and the urgency of European rearmament. Greater industrial capacity could give them additional leverage: countries that supply more of Europe's ammunition, land systems, air defenses, and other critical capabilities may expect a larger voice in determining Europe's security priorities.

The result may not simply be a shift from west to east. As Part I outlined, Europe could develop **multiple centers of defense industrial power organized around geography and capability**—land systems and territorial defense concentrated more heavily along the eastern flank; maritime capabilities among Europe's naval powers; and aerospace, space, and advanced technologies clustered elsewhere.

The United Kingdom adds another dimension. Despite Brexit, Britain remains one of Europe's largest military and defense-industrial powers, with significant capabilities in aerospace, naval systems, advanced manufacturing, and defense innovation. Strategic necessity could pull the UK more deeply into continental procurement and co-production even as political integration remains limited.

What we're watching:

- → Which countries and regions emerge as Europe's leading centers of defense production—and whether industrial weight translates into greater political influence;
- → Whether capability-based coalitions deepen into durable defense-industrial blocs;
- → Whether defense integration between the UK and continental Europe begins to move faster than political integration.

2. European Rearmament Could Reshape the Transatlantic Relationship

For decades, the transatlantic defense-industrial relationship has been highly asymmetric: Europe depended heavily on American military capabilities and equipment, while U.S. firms enjoyed access to a large European market. A stronger EDIB could gradually change both sides of that equation.

As European governments spend hundreds of billions of euros on defense, political pressure will grow to ensure that more of those funds create European jobs, production capacity, intellectual property, and technology. "Buy European" policies could therefore reduce opportunities for U.S. suppliers in some markets even as Europe's immediate readiness needs continue to generate substantial demand for American systems.

Over time, the competition could extend beyond Europe. If European firms achieve scale and competitiveness, they will increasingly compete with American firms for contracts in the Middle East, Indo-Pacific, and other growing defense markets.

But greater European capacity could also strengthen the alliance. A Europe able to produce more of its own munitions, sustain more of its own forces, and fill more conventional capability gaps would reduce pressure on U.S. inventories and military resources—particularly as Washington devotes greater attention to the Indo-Pacific.

The same industrial transformation could therefore produce both greater burden-sharing and greater commercial competition. Managing that duality may become an increasingly important feature of the transatlantic relationship.

What we're watching:

- → How aggressively European governments favor domestic and European suppliers as defense spending rises;
- → Where U.S. and European firms increasingly compete—and where co-production and technology-sharing deepen instead;
- → Whether defense-industrial disputes remain commercial or begin spilling into the broader transatlantic relationship.

3. Defense Industry Could Become a New Instrument of European Statecraft

A larger and more competitive defense industry would give European governments something they have historically possessed on a more limited scale: **the ability to use access to weapons, technology, production, and sustainment as an instrument of geopolitical influence.**

The United States has long used arms sales, co-production agreements, training, technology partnerships, and long-term sustainment relationships to reinforce strategic partnerships. As Europe's defense firms expand, European governments may have greater capacity to do the same.

Over the past two years, French, German, and Swedish defense exports have all hit record highs, with appetite outside the bloc rapidly expanding. For example, more than 80% of French defense exports are now sold outside continental Europe.

The implications could be particularly important in the Gulf and Indo-Pacific, where governments are simultaneously seeking military capability, technology transfer, supply-chain resilience, and diversified strategic relationships. European defense agreements could increasingly become part of broader packages involving trade, energy, critical minerals, investment, and diplomatic cooperation.

That would make export competitiveness strategically important for reasons extending well beyond the commercial value of individual contracts. **Who buys European weapons—and what relationships Europe builds around those sales—could increasingly shape Europe's geopolitical reach.**

What we're watching:

- → Whether Europe pitches its defense and digital technologies as a politically reliable platform in the face of U.S. delivery delays and concerns that critical digital infrastructure could become entangled in future trade or political disputes.
- → Whether European governments increasingly treat arms sales and co-production as instruments of foreign policy rather than primarily commercial transactions;
- → Whether defense agreements become linked to trade, energy, critical-mineral, investment, or technology partnerships;
- → Whether European governments coordinate exports more closely to advance broader strategic objectives in the Gulf, Indo-Pacific, and elsewhere.

The Countermove: A Bigger EDIB Creates a Bigger Target

Greater industrial capacity will make Europe more capable—but it will also create more assets for adversaries to target.

Factories, energy infrastructure, telecommunications networks, ports, railways, warehouses, and logistics hubs will become increasingly important to Europe's ability to mobilize and sustain military power. As Figure 16 shows, Russia has stepped up hybrid activities against Europe, deploying cyberattacks, sabotage, GPS interference, influence operations, and other gray-zone tactics against European infrastructure while seeking to remain below the threshold of direct conflict with NATO.

As Europe's defense-industrial buildup accelerates, **the infrastructure enabling that buildup is likely to become a more important arena of competition with Moscow.** Resilience will therefore have to become part of industrial policy itself: building additional production capacity matters less if a small number of energy, transportation, digital, or supply-chain vulnerabilities can disrupt it.

Figure 16. Europe's Other War

Russian hybrid-warfare activity across Europe, January 2018–June 2025



Note: Energy and communications categories exclude Russian efforts to sabotage undersea cables and pipelines; these actions are counted in the undersea category.

Sources: IISS analysis; Armed Conflict Location & Event Data Project (ACLED), www.acleddata.com; Bart Schuurman, 'Russian Operations Against Europe Dataset', https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/TQ0FMQ

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What we're watching:

- Which nodes across defense production, energy, telecommunications, transportation, and logistics Russia seeks to exploit;
- Whether attacks increasingly focus on the less visible Tier 2 and Tier 3 suppliers identified in Part I;
- Whether Europe can improve industrial resilience and coordinate responses to gray-zone activity without allowing Moscow to divide allies or weaken political support for rearmament.

Conclusion

Taken together, these shifts point toward a broader transformation. **A larger European defense-industrial base would not simply give Europe more weapons. It would redistribute economic power within the continent, alter Europe's relationship with the United States, create new instruments of influence abroad, and change how adversaries seek to constrain European power.**

That is ultimately why Europe's current rearmament matters beyond defense. If sustained, it could leave Europe not only better armed, but more strategically consequential.

Data Explanation

Figure 8. From Trickle to Torrent

Annual funding by investment stage, 2015–2025

Figure 8 is a stacked bar chart showing annual funding from 2015 through 2025, broken down by investment stage. The categories are pre-seed ($0–1 million), seed ($1–4 million), Series A ($4–15 million), Series B ($15–40 million), Series C ($40–100 million), mega rounds ($100–250 million), and mega-plus rounds ($250 million or more).

Total annual funding was $456.3 million in 2015, $760.7 million in 2016, $612 million in 2017, $1.2 billion in both 2018 and 2019, $2.3 billion in 2020, $4.4 billion in 2021, $4.1 billion in 2022, $4.4 billion in 2023, $5.6 billion in 2024, and $8.7 billion in 2025.

Overall, funding increased significantly over the period despite occasional declines or periods of little change. The largest increase occurred between 2024 and 2025, when total funding rose by $3.1 billion. Later-stage investments account for an increasing share of funding over time, with mega and mega-plus rounds driving much of the growth in 2025. Series A, B, and C investments also expanded substantially compared with the earlier years, while pre-seed and seed funding remained a relatively small portion of the total.

Access the chart version

Figure 16. Europe's Other War

European critical-infrastructure sabotage and other attacks

Figure 16 is a map of Europe showing the geographic distribution of suspected or documented acts of sabotage against critical infrastructure, along with several other types of attacks.

Circular markers represent critical-infrastructure targets. The color inside each circle identifies the affected sector: communications, energy, government, health, industry, military, transport, undersea infrastructure, or water. The color of the circle's outline indicates the assessed level of confidence: realistically possible, likely, highly likely, or almost certain.

Star-shaped markers represent other attacks. Their colors distinguish between assassination or attempted assassination, spying by uninhabited aerial vehicles, weaponized immigration, GPS jamming, vandalism, and terrorism.

Incidents are distributed across much of Europe, but the greatest concentration appears in Northern, Western, and Central Europe. Dense clusters are visible around the United Kingdom, France, Belgium, the Netherlands, Germany, Switzerland, Poland, the Baltic Sea region, Finland, Estonia, Latvia, and Lithuania. Additional incidents appear in Scandinavia, Southern Europe, and the Balkans.

The map shows that the affected infrastructure is diverse, with energy, transport, communications, water, government, military, and industrial targets appearing across multiple countries. Undersea and offshore incidents are also shown around the Baltic, North, Norwegian, and Mediterranean seas. Star markers indicate that infrastructure sabotage forms part of a broader pattern of hostile activity that also includes surveillance by uninhabited aerial vehicles, GPS interference, vandalism, terrorism, weaponized immigration, and assassination attempts.

Access the chart version

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