



CEPS POLICY BRIEF

FROM FREE-RIDERS TO FRONT-LOADERS

**Why the EU's defence awakening must be
matched by economic coherence**

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SUMMARY

The 'White Paper on European Defence Readiness 2030' charts a geostrategic course for rearming Europe and, at the same time, offers realistic suggestions on how to achieve this by working through the EU institutions and with like-minded partners.

For the EU's plans to stick, however, economic coherence and coordination will have to be the glue that binds it all together. The EU will need to be realistic and acknowledge the clear trade-off between increasing its defence capabilities in the short term – which will necessarily involve spending on non-EU produced equipment – and building a truly autonomous European defence technological and industrial base, independent from the US, which will inevitably take much longer.

This CEPS Policy Brief presents five policy recommendations (and further details on each recommendation can be found at the end of the policy brief on page 11):

- Urgent adoption and implementation of the European Defence Industrial Programme (EDIP).
- Carefully distinguish between short-and long-term goals, by acknowledging that national escape clauses are not the best instrument for a structural increase in defence spending. Without mutualised EU funding, there should be a targeted reform of fiscal rules, with a new 'golden rule' to account for defence spending.
- Align defence spending with industrial strengths, ensure greater contributions from larger Member States, avoid 'defence washing', and prioritise capital expenditure.
- Acknowledge defence as a primarily public responsibility, limit expectations about the European Investment Bank (EIB) and the Capital Markets Union (CMU) and use EU-level public funding as the backbone of Europe's defence strategy. This would be done via innovative solutions, such as repurposing the ESM or an increase in EU own resources.
- Recalibrate transatlantic industrial relations.



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INTRODUCTION – IT'S TIME FOR ACTION

There have been so many calls over the last few years for the EU to wake up and get its military act together. Unfortunately, these appeals have always seemingly fallen on deaf ears. While one doesn't have to share the [loathing by US top officials](#) of European 'free-loading', the uncomfortable truth remains that Europeans are not ready to properly defend themselves – let alone others – without American engagement.

Formally, the US nuclear guarantee still holds but the psychology of collective defence contained in NATO's Article 5 has been undermined, also by [statements](#) that the US will withdraw troops and kit from Europe. Most of the European political class have seemingly understood that more promises won't suffice. They have finally woken up to the reality that action needs to be taken now. According to [the latest Eurobarometer](#), this is also what citizens expect.

With all this in mind, expectations about the [much-touted](#) 'White Paper on the Future of European Defence' were high. Laudably, it's the first EU policy paper which charts a coherent geostrategic course for rearming Europe and at the same time offers realistic suggestions on how to achieve this by working through the EU institutions. In this sense, it's definitely a better document than the 2022 [Strategic Compass for Security and Defence](#).

Yet the EU's geopolitical vision remains somewhat myopic. This is reflected in the White Paper's official title: '[European Defence Readiness 2030](#)'. The timeframe barely goes beyond the current institutional mandate and the document's plans hardly extend beyond the defence industrial realm; they shy away from issues of doctrine, organisation, personnel, training, leadership and education.

What's more, even if the EUR 800 billion projected in the [ReArm initiative](#) is found, then it's still the case that Europe cannot simply spend itself out of the current crisis. For Europe's plans to stick, economic coherence and coordination will have to be the glue that holds it all together. Moreover, the EU will need to be realistic and acknowledge the clear trade-off between increasing its defence capabilities in the short term – which will necessarily involve spending on non-EU produced equipment – and building a truly autonomous European defence technological and industrial base, independent from the US, which will inevitably take much longer.

SITUATIONAL AWARENESS

An effective prescription requires a proper diagnosis of the current situation. Hampered by the high levels of volatility caused by the new Trump administration and discussions about the future of the European security order, the European Commission and High Representative couldn't afford to jump to conclusions. In the White Paper, they present a quick scan of global threats and politely note that the US is 'reducing its historical role as a primary security guarantor' at a time when the Russian war economy is expected to 'surpass Member States' defence spending in purchasing power parity terms', and when 'authoritarian' China presents both a 'systemic' and 'systematic' challenge.

While the document offers a glimpse into the EU institutions' wider geopolitical thinking, for instance on the dangers of a potential conflict over Taiwan, it doesn't pretend to be a real strategy, which would establish priority actions with accompanying trade-offs across various scenarios. It rather presents a snapshot picture and a set of assumptions to help define a roadmap to rearm Europe in the short to medium term. Since the main thrust of the narrative is that **Europe's security and defence is inextricably linked to Ukraine and requires immediate action**, it's surprising that the Commission and High Representative have remained silent on China's support for Russia's war of aggression against Ukraine. That said, the White Paper does do a decent job at distinguishing between the EU's friends and foes.

For now, the EU institutions are sticking with NATO, even if [there are signs](#) that the US can work against allies from within the organisation. Their proposals, however, amount – in all but name – to the creation of a strategically autonomous European pillar. Gone are the days of worrying about duplicating capabilities with those on the other side of the Atlantic. Contrary to the Trump administration's isolationist agenda and untrustworthiness towards its neighbours, friends and allies, the EU is promoting an 'open architecture combined with variable geometry' to enhance its security. The White Paper implicitly encourages the UK and other like-minded states which don't (yet) have a security and defence partnership with the EU (such as Canada, Australia, New Zealand and India) to agree one quickly, lest their companies miss out on the fresh subsidies that the EU plans to dole out.

American companies are implicitly frozen out of the current spending plans. This is a small victory for Paris, which continues to insist that the new money should be used to primarily 'buy European'.

While the suggestion that the EU should 'de-risk' from the US would have been too politically explosive to include in the White Paper, it's nevertheless counterintuitive for the Commission and High Representative to suggest that the EU will 'continue to build on

the deep and extensive transatlantic supply chain'. **Now would have been the moment to push for the rebalancing of the defence industrial relationship and spell out clearly what it means to make it 'mutually beneficial'.**

With the growing weight of an increasingly integrated defence market, which the US benefits from so much, comes the need to renegotiate the terms and conditions of industrial cooperation with Washington, so that Europe (1) when it produces for US consumption, is no longer subject to American control of its value chain; and (2) when it buys American, the US can no longer flick a kill switch to deny what Europeans see as the legitimate exercise of their strategic autonomy. **In short, going forward, the transatlantic industrial alliance will have to be imbued with more reciprocity.**

The EU institutions do display more confidence in demanding strategic clarity from candidate countries. Those which don't fully align with the EU's Common Foreign and Security Policy (e.g. Serbia and Georgia) are not mentioned in the White Paper and risk being left by the wayside. The fact that this has little to do with their democratic backsliding is revealed by the inclusion of an increasingly autocratic Turkey, which is deemed key to the European 'coalition of the able and willing' to police a future ceasefire agreement between Russia and Ukraine.

So, security trumps values, it seems. But then is the EU not bound to its own rulebook?

If, as the White Paper suggests, the EU is to shape the international order in the second half of this decade, then it will have to find a way to marry the values it is expected to uphold with the development of defence projects of 'common interest' and an enhanced governance model of the future 'Defence Union'. On these elements, the White Paper doesn't meet expectations. It's rather characterised by a hard-nosed approach to address immediate shortfalls and stave off the clear and present danger of falling prey to malevolent great powers.

A PORCUPINE STRATEGY

Central to the White Paper, and thus Europe's defence, is a 'porcupine strategy' for Ukraine to defend itself and deter Russia – also from attacking EU Member States.

The surest way of quickly filling critical gaps is indeed to link Ukraine to EU initiatives to develop defence capabilities and integrate the respective industries. Accelerating the candidate country's defence industrial integration isn't just Brussels' geostrategic response to Russia's war of aggression. It also serves the EU's self-enlightened interest. As stated in the White Paper itself: *'Ukraine has become the world's leading defence and technology innovation laboratory. Closer cooperation between the Ukrainian and*

European defence industries will enable first-hand knowledge transfer on how to best use innovation to achieve military superiority on the battlefield, including on rapidly scaling up production and updating existing capabilities.'

Ukraine and all EU Member States need the capabilities required to conduct the 'entire spectrum of military tasks', ranging from providing a minimum of two million rounds of large-calibre artillery ammunition, air-defence systems, missiles and drones to key enablers like space assets and services to replace American capacities for intelligence-sharing, surveillance, and reconnaissance. The fact that nuclear capabilities are left out of the White Paper is an understandable omission given the limitations of a nuclear weapon state to share its command and control, neutral states' objections, and the EU's minor civilian competences in this field. This is illustrative of the 'know thyself' spirit through which the White Paper was written.

Yet the EU is uniquely placed to harmonise standards in the dual-use sphere, stimulate joint production and facilitate joint procurement. The Commission and High Representative do not fail to signpost this clearly in the White Paper.

At its core, the White Paper is a rich work programme for the short to medium term, i.e. to 2030. But if the first 100 days of Trump 2.0 provide any measure of reality, then it's that things could change – and change fast. The policy prescription formulated by the Commission and the High Representative may therefore have to be administered not over a period of five years but much [more quickly](#). **There simply may not be the time for standard regulatory approaches. This is why the Council and the European Parliament should urgently adopt what is already in the pipeline, particularly the [European Defence Industrial Programme \(EDIP\)](#).**

The draft EDIP Regulation from March 2024 is designed to, among other things:

- Strengthen the Commission's capacity to support, coordinate and rationalise Member States' demand for military equipment *vis-à-vis* the defence industry.
- Enable the Commission to negotiate defence contracts (which it could co-finance) on behalf of groups of Member States.
- Give the executive (i.e. the Commission) an unprecedented role in selecting defence projects of 'common interest' that could be co-financed by the EU.
- Authorise the Commission, in exceptional circumstances and under certain strict conditions agreed with the Member States concerned, to impose priorities on defence companies in terms of military production and critical components, even going so far as to impose sanctions if necessary.

In the White Paper, the Commission exudes confidence that it can be entrusted with the extension of such Covid-era powers to the area of defence. It would replicate what Member States have already agreed to in the EU's Chips Act and Critical Raw Materials Act. In the realm of defence, it would require appropriate levels of transparency and accountability.

Rather than making too fine a point about this and stirring up certain Member States' concerns about a new institutional power grab, the Commission and the High Representative give their support to various projects which go beyond individual Member States' abilities and would evidently benefit from a coordinated approach at the EU level.

One can only hope that the Member States pick up on this sales pitch and provide the political boost needed for defining new projects and implementing existing ones, particularly the project on [military mobility](#). Indeed, it's in their collective interest to be able to swiftly move troops and kit across the EU's internal borders, through four priority corridors and past the 500 or so bottlenecks (including railway tunnels, bridges, ports and airport terminals) identified by the Commission and High Representative.

Apart from harmonising standards, the White Paper emphasises a path of turbo-charged growth, namely by building 'readiness', which is complementary to Member States, by 'massively frontload(ing) investment in the defence sector'.

ECONOMIES OF SCALE

President Trump, who sees the world through a transactional, business-oriented lens, has been pressuring EU countries to take charge of their own defence. Not only because he considers the EU to be benefiting freely from American protection — the classic *free-rider* problem — but also for economic reasons: between mid-2022 and mid-2023, over 60% of the EU's acquired military equipment came from the US, as highlighted in the [Draghi report](#).

Though these figures have been contested (Ursula von der Leyen recently referred to 80% of the military equipment acquired by the EU as coming from the US, while the IISS [found](#), while looking at recent contracts, that 52% of EU spending went to EU companies), it's undeniable that a large proportion of EU spending on defence equipment directly benefits the US. While European defence firms such as Rheinmetall, Leonardo, Dassault, Indra and BAE Systems have seen strong share price growth since 2022, large US contractors — RTX, General Dynamics and Lockheed Martin — continue to benefit substantially from EU demand.

The EU's dependence on the US defence industrial base isn't merely a matter of technological superiority. American equipment is also cheaper, thanks to the US defence industry's higher concentration, which allows for economies of scale. Defence markets are quasi-monopsonies – with states as the primary buyers – and in the EU, each Member State tends to buy from its own national firms. This results in a fragmented supply side, loss of scale efficiency and significant interoperability issues.

Considering this, the EU has taken steps to strengthen its defence posture. The White Paper identifies investment needs and rightly calls for more joint procurement, not only for consumables but also for complex systems – signalling the shift from a 'peace dividend' to a 'collaboration dividend'.

Besides, not all defence spending has the same economic impact. Defence spending typically falls into three categories: (1) military personnel remuneration; (2) intermediate consumption (e.g. fuel, ammunition); and (3) investment. Only the third has significant economic and industrial transformative potential. But to generate positive spillovers, such investment must benefit domestic or European defence firms – through national orders or, ideally, joint EU procurement platforms. Otherwise, public money would merely stimulate third-country industries.

So, if the EU wants to step up its defence powers in the short term, it will inevitably have to increase demand for non-EU equipment. However, addressing these urgent needs shouldn't come at the expense of building a stronger and more autonomous EU defence technological and industrial base. **Given the EU's limited competences in industrial and defence policy, it's of utmost importance that EU leaders identify the respective competitive advantages of their national defence industries and consolidate demand for equipment and technologies accordingly.**

A FLAWED FINANCIAL APPROACH

On 4 March 2025, Commission President Ursula von der Leyen presented the ReArm Europe initiative, supported by the European Council two days later. It rests on five pillars: (1) easing fiscal rules to allow greater national defence spending; (2) a new EUR 150 billion loan instrument for strategic projects; (3) reallocating EU funds towards defence, though this has triggered strong opposition from some Member States; (4) an expanded role for the European Investment Bank (EIB); and (5) the mobilisation of private capital through the Capital Markets Union (CMU).

On 1 April 2025, the European Commission presented a [revision of the EU's cohesion policy](#) that will further enable Member States to use current cohesion funding to build

resilient infrastructure to foster military mobility. It will also support the productive capacities of small and large enterprises in the defence sector across all EU regions.

Alas, this financial approach remains flawed, as it misuses the fiscal safeguard clauses – designed for extraordinary economic shocks, not for addressing structural increases in investment needs – and fails to account for both the limited fiscal space of most large EU Member States, such as France, Italy and Spain, and the significant prior investments made by other Member States, such as Poland. Finally, it also reflects an over-reliance on the role of the EIB and private funding sources.

THE INAPPROPRIATE USE OF FISCAL SAFEGUARD CLAUSES

The Commission's [proposal](#) to trigger a national safeguard clause risks undermining the credibility of the newly-approved fiscal rules even before they're implemented.

Neither the general nor the national safeguard clauses appear well suited to accommodate increased defence spending, as they were designed to respond to extraordinary economic shocks, such as a severe EU-wide recession (the general safeguard clause) or a country-specific natural disaster (the national safeguard clause). They were simply not designed to tackle structural and permanent spending needs, like those found in defence.

Besides, since safeguard clauses are temporary by their very nature, the current proposal includes a four-year time limit – leaving unresolved what will happen to defence spending beyond the fifth year, thus creating uncertainty for medium-term fiscal planning.

Finally, there are also some equity concerns. Some Member States – such as Poland – are already spending well above the 2% of GDP threshold, even surpassing 4%, having increased their defence budgets over recent years while making sacrifices in other areas. For these countries, activating a safeguard clause now appears unfair, as it would allow others to expand their defence spending without having made similar efforts or sacrifices.

With these shortcomings in mind, we need a more coherent and lasting solution. **If the EU and its Member States wish to scale up defence spending without undermining other budgetary priorities, then a targeted reform of the EU fiscal framework should be considered, especially in the absence of mutualised EU funding.**

Specifically, this could take the form of a 'golden rule' – a fiscal rule that allows certain types of productive public investments to be excluded from deficit calculations. In this case, defence spending – or at least a part of it – would be treated as a long-term investment in strategic resilience, provided it meets predefined criteria to avoid abuse.

Such a reform would provide a long-term framework, allowing for the increased defence spending that's necessary in the current geopolitical context.

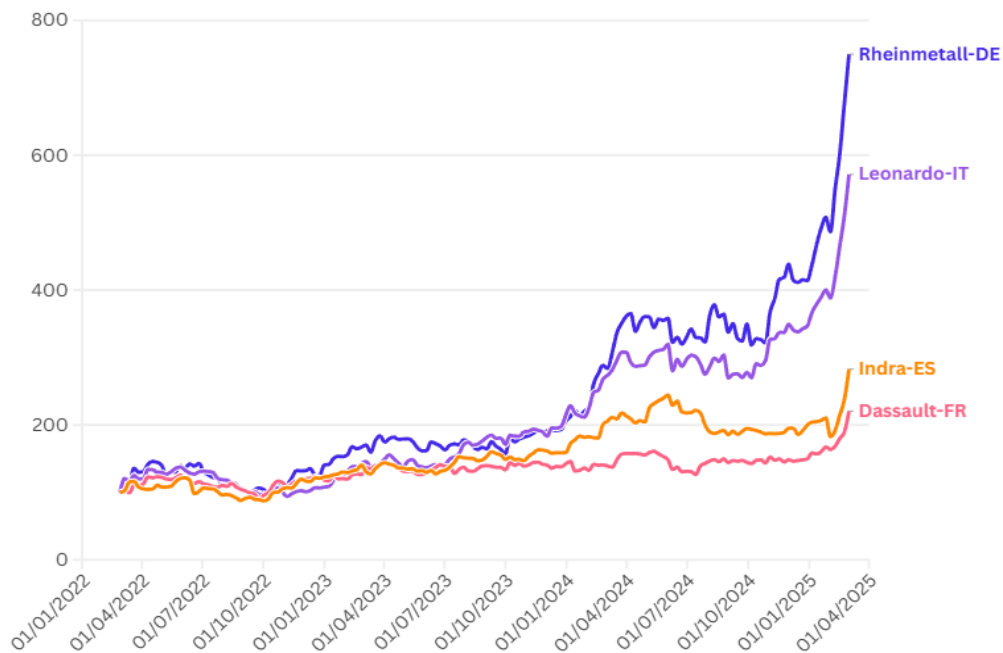
Yet while a golden rule would establish a permanent and more suitable framework going forward, it wouldn't fully address past asymmetries. Countries that have already increased defence spending without fiscal leniency would still bear the burden of prior trade-offs, a reality that should be acknowledged. **That's why a golden rule remains only a second-best solution after common mutualised funding of defence spending.**

LOANS INSTEAD OF TRANSFERS

The [Security Action for Europe \(SAFE\) instrument](#) – the aforementioned EUR 150 billion loan scheme that may offer cheaper borrowing for countries like Italy, France and Spain – would still lead to an increase in national debt. Understandably, the Commission opted for a [SURE-like](#) defence instrument (i.e. based on loans), rather than an [RRF-like](#) one based on grants, as the latter would have required an amendment to the Own Resources Decision – a process that demands unanimity. Nonetheless, this choice already reflects the lack of a shared sense of urgency or common vision among Member States over how to address the situation.

With public debt-to-GDP ratios exceeding 100%, most Member States' capacity to substantially increase defence spending is significantly constrained. Indeed, financial markets have been quick to identify which countries will have greater spending capacity in this scenario. As shown in **Figure 1** below, while the stock prices of leading defence companies in the four largest EU Member States have soared, shares of the German firm Rheinmetall have surged even more sharply – reflecting both investors' confidence in Germany's ample fiscal space and the assumption that Member States will act individually rather than working together to pool demand.

Figure 1. Evolution of the main EU defence companies' stock prices between February 2022 and March 2024



Source: Authors' own elaboration based on [investing.com](https://www.investing.com).

Financial stability could also be at risk, depending on the scale of Germany's planned fiscal expansion. Financial markets are aware that, unlike the green and digital transitions, where private investment plays a key role, defence spending primarily depends on public funding. Following Germany's announcement of a [major fiscal package](#), which includes military investments, sovereign bond yields across the euro area rose. While risk premia have remained stable for now, a sharp increase in the supply of German bonds over the coming years could lead to a crowding-out effect for other large euro area Member States, potentially driving up their borrowing costs.

Spain and Italy, with public debt-to-GDP ratios above 100%, would find themselves under particular pressure. In 2024, their defence spending stood at around 1.3% and 1.5% of GDP – well below the 2% NATO benchmark. However, spending levels alone don't capture actual contributions. Both Spain and Italy have effectively participated in NATO naval and air missions, whereas some other countries meeting the target have not. This highlights the importance of increased defence spending by the EU's largest Member States – higher spending by larger economies has a proportionally greater impact on the EU's overall defence capabilities.

This is why major EU economies must do more — and do it better. But this won't be easy. With public debt over 100% of GDP, increased defence expenditure will inevitably lead to trade-offs or revenue increases. And not all Member States perceive the threat equally –

southern countries like Spain and Italy, more distant from the Ukrainian front, tend to prioritise differently.

But Russia's reach extends beyond eastern Europe and affects critical infrastructures across the continent. Through the Wagner Group, it [continues to destabilise](#) African regions, underscoring the broader scope of European security. Moreover, Member States should avoid falling into the temptation of so-called defence-washing, by trying to tag clearly unrelated budgetary items as defence spending.

All these efforts will be much easier if Member States opt for mutualised funding. Indeed, as with other European public goods, defence should be financed through EU-level transfers and not national debt. This would also avoid the need to reform EU fiscal rules. However, the Commission hasn't proposed this option, likely for two major institutional and political reasons.

First, issuing any new common debt would require an amendment to the Own Resources Decision, which demands unanimity among Member States and parliamentary ratification in each country. In the current political climate, marked by rising tensions over fiscal sovereignty, these requirements are likely to be unattainable.

Second, the EU's fiscal space will be extremely limited under the next Multiannual Financial Framework (MFF). From 2026 onwards, the repayment of RRF loans will begin, reducing the EU budget's net capacity and making it more difficult to open new lines of structural expenditure.

Given these constraints, two alternative avenues should be explored to provide financial capacity for European defence without relying solely on national budgets:

- 1) **Repurpose the European Stability Mechanism (ESM).** Although its current mandate focuses on financial stability crises and is limited to the euro area, activating it would require national parliamentary ratification. Since Italy has so far [blocked the pending reform](#), this impasse could be an opportunity to fundamentally rethink its function – transforming it into a tool capable of financing joint strategic investments in defence.
- 2) **Introduce new own resources into the EU budget, earmarked specifically for defence.** These could be linked to strategic sectors or activities with a strong European dimension (such as a digital tax or a levy on intra-European air transport emissions). This would create a structural revenue source but without increasing Member States' direct fiscal burden.

A LACK OF REALISM OVER PRIVATE FUNDING SOURCES

Relying on the EIB to support increased defence spending is largely misguided. While the EIB may contribute indirectly to the broader defence ecosystem – for instance, by financing dual-use technologies or critical infrastructure – its mandate explicitly prohibits investment in military activities. As such, its potential role in addressing the core funding needs of national defence strategies is extremely limited.

Similarly, expectations that the CMU could unlock significant private financing for defence are unrealistic. Defence remains a sovereign function, with most funding coming from public budgets. Private sector involvement is inherently constrained – not only due to the strategic and sensitive nature of defence activities but also because of reputational and compliance risks. These concerns are amplified by the growing prominence of environmental, social and governance (ESG) criteria in investment decisions. **Consequently, over-relying on private capital markets to finance defence could prove both ineffective and politically contentious.**

POLICY RECOMMENDATIONS:

With the above analysis in mind, this CEPS Policy Brief presents **five recommendations** that policymakers should actively consider over the coming weeks and months:

- 1) **Urgent adoption and implementation of the EDIP.** The Council and the European Parliament must adopt the European Defence Industrial Programme (EDIP) and entrust the Commission with emergency powers to support, coordinate and rationalise Member States' demand for military equipment *vis-à-vis* the defence industry.

Member States should also provide the political boost needed for reaching the full operational capacity of concrete projects of common interest, particularly the ongoing project on military mobility.

- 2) **Carefully distinguish short- and long-term goals.** While activating the national escape clause in the fiscal rules will accommodate defence spending over the coming four years, it's not a suitable option in the long run. With the absence of EU-level transfers, a structural long-term solution is needed – likely involving a targeted reform of the fiscal rules to create a 'golden rule' to account for defence spending.

- 3) **Multi-level governance: coordinate Member States' investment and avoid 'defence washing'.** EU leaders should identify the respective competitive advantages of their national defence industries and consolidate demand for equipment and technologies accordingly.

Defence spending should increase in the EU's largest Member States, as higher spending by larger economies has a proportionally greater impact on the EU's overall defence capabilities. 'Defence washing' should be avoided. Alongside this, Member States should ensure that the expected increase in defence budgets translates into enhanced military capabilities. They can do this by prioritising capital expenditure – particularly in equipment, infrastructure and technology – over current expenditure, where appropriate.

- 4) **Getting the public-private mix right.** EU leaders should recognise that defence remains primarily a sovereign and publicly-funded responsibility. While private sector participation may play a supporting role, the core of defence spending will rely on public budgets.

This is why policy discussions should avoid overstating the EIB or CMU's potential to mobilise large-scale private funding for defence. Instead, public financing instruments – including well-designed EU-level transfers via innovative solutions, such as a repurposed ESM or an increase in own resources – should form the backbone of Europe's defence strategy.

- 5) **Recalibrate transatlantic industrial relations.** The EU should renegotiate the terms and conditions of the transatlantic industrial alliance so that when it does produce for US consumption, it's no longer subject to American control of its value chain. When the EU buys American, the US shouldn't be able to flick a kill switch to deny what Europeans see as the legitimate exercise of their strategic autonomy.

CONCLUSIONS

Europe's defence awakening is real – but still fragile. With the White Paper on European Defence Readiness 2030, the EU has taken an important step towards building a credible defence posture. Yet rhetoric alone won't deter threats nor fill capability gaps. Ambitious targets must be matched by the financial, industrial and political means to deliver them.

This requires economic coherence. Defence cannot be financed through fiscal improvisation, nor delegated to private markets. The current patchwork of national spending, uncoordinated borrowing and excessive expectations placed on instruments like the EIB or CMU risks weakening, not strengthening, Europe's security. A robust

strategy must include clear prioritisation of capital investment over current spending, coordination of national efforts based on industrial strengths and sustainable fiscal tools, whether through EU-level transfers or a targeted reform introducing a 'golden rule'.

At the end of the day, strategic ambition must be anchored in political maturity. If the EU is serious about becoming a credible security actor, then Member States must move beyond fragmented sovereignty and adopt a shared understanding of defence as a European public good.

Without this strategic alignment, Europe's security ambitions will remain just that – ambitions.



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