



**conseil d'analyse
économique**

Rearming Europe: Meeting the Challenge of Economic Integration and Innovation

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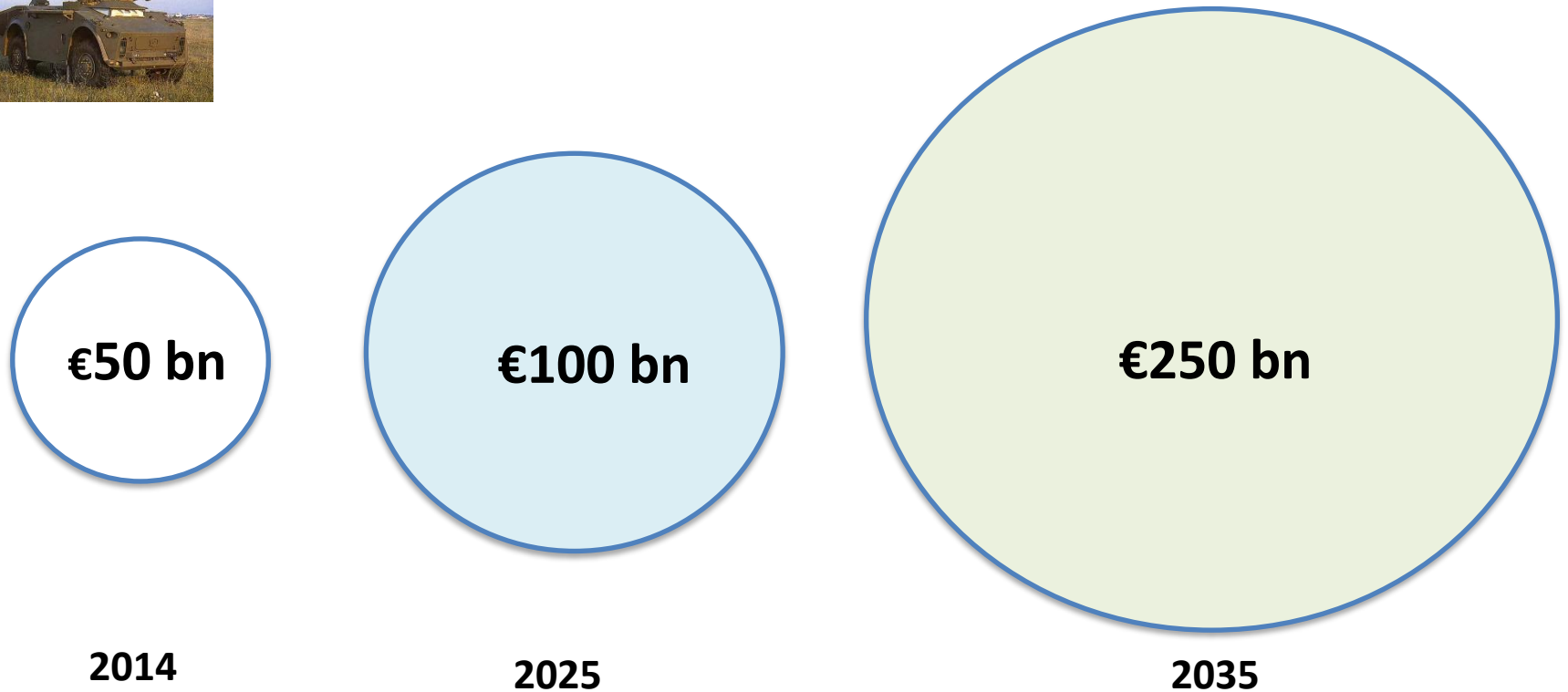
Alain Quinet, Sain-Cyr-Coëtquidan et IHEDN

The state of progress in Europe's rearmament efforts

An Investment-driven defence build-up

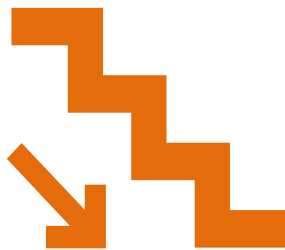


The European market for military equipment (€₂₀₂₅)

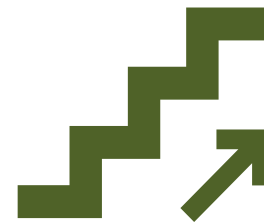


The share of equipment in Europe's military spending rose from 20% in 2018 to 33% in 2025.

The size of the investment backlog



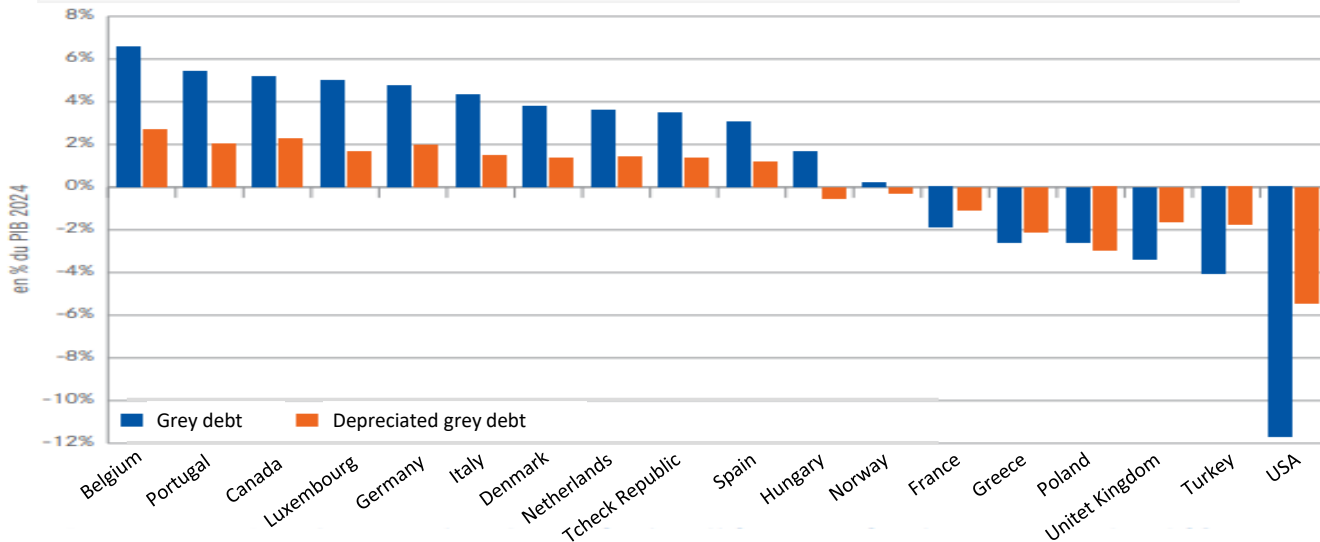
**Equipment
depreciates
over time**



**R&D does not
depreciate and
creates better
conditions for
future innovation**

A limited implicit debt on equipment...

Chart 2. Implicit equipment debts compared to the NATO standard



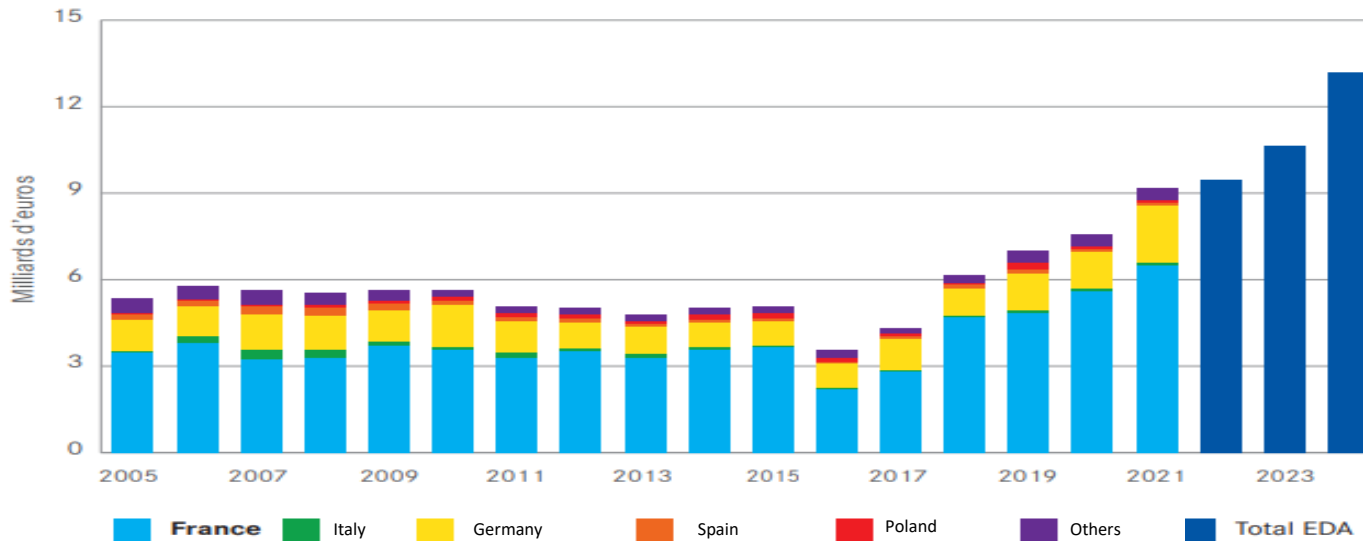
Reading: the fiscal grey debt related to Germany's defense equipment stands at 4.7% of its GDP in 2024, compared to 1.9% for the (depreciated) capital grey debt. France has a gray budget surplus of 1.9% of GDP (it spent more than the minimum standard) and a gray capacity surplus (depreciated) of 1.1%.

Sources: Calculation by the authors, SIPRI, NATO, World Bank

- **High share of defence spending devoted to equipment (20%)**
- **Rapid obsolescence of equipment**

...but insufficient military innovation

Chart 5. Military R&D expenditure by the members of the EDA (€bn)



■ European R&D :
€13bn (4% of military spending)
/ US: \$84bn (9% of military spending, 2022)

■ No ambitious European innovation project (e.g., Galileo, Ariane)

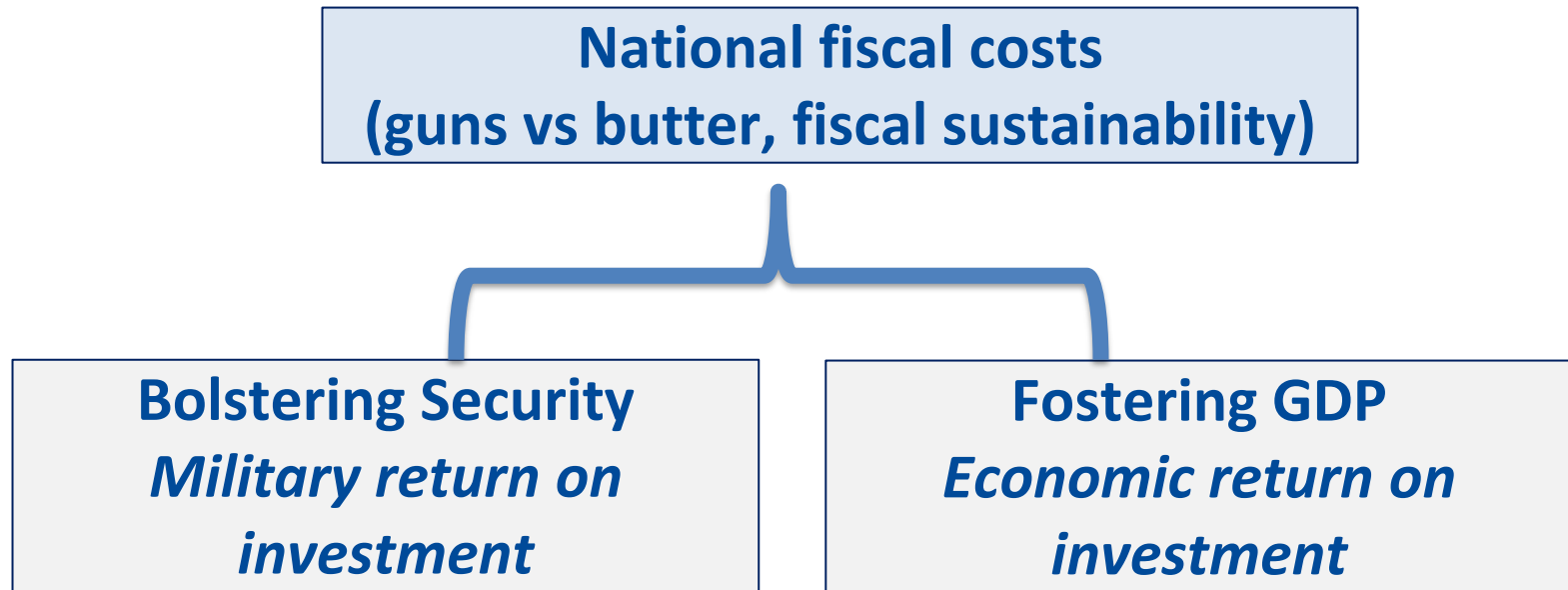
Note: from 2022, only aggregate data are available; the UK is not included in pre-Brexit data. Denmark is included as of 2021. Since 2023, the 27 EU members constitute all the members of the EDA.

Source: European Defence Agency (EDA)

Higher multiplier associated with a greater R&D content

The economic challenge

Tradeoffs, costs, but also opportunities

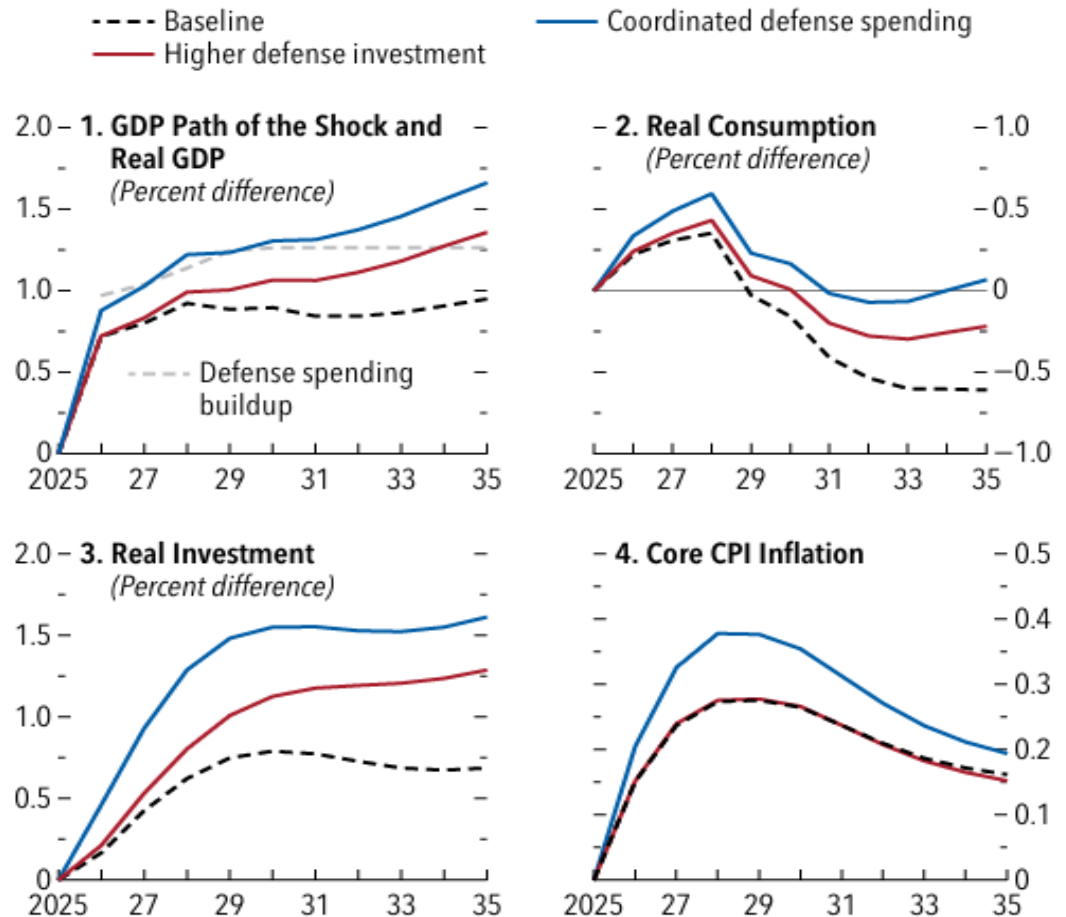


Opportunities will not materialize on their own

WEO scenarios for Europe

- **Baseline** (*defense spending = +1 percent of GDP in 2026/+1.3 in 2030*)
- **Increased Investment spending** (*40% of defense spending*)
- **Coordinated program for defense spending and financing**
 - Lower import content
 - Lower risk premium
 - Economies of scale

Figure 2.13. Higher Investment Spending and Coordinated Defense Spending
(Percentage point difference, unless noted otherwise)



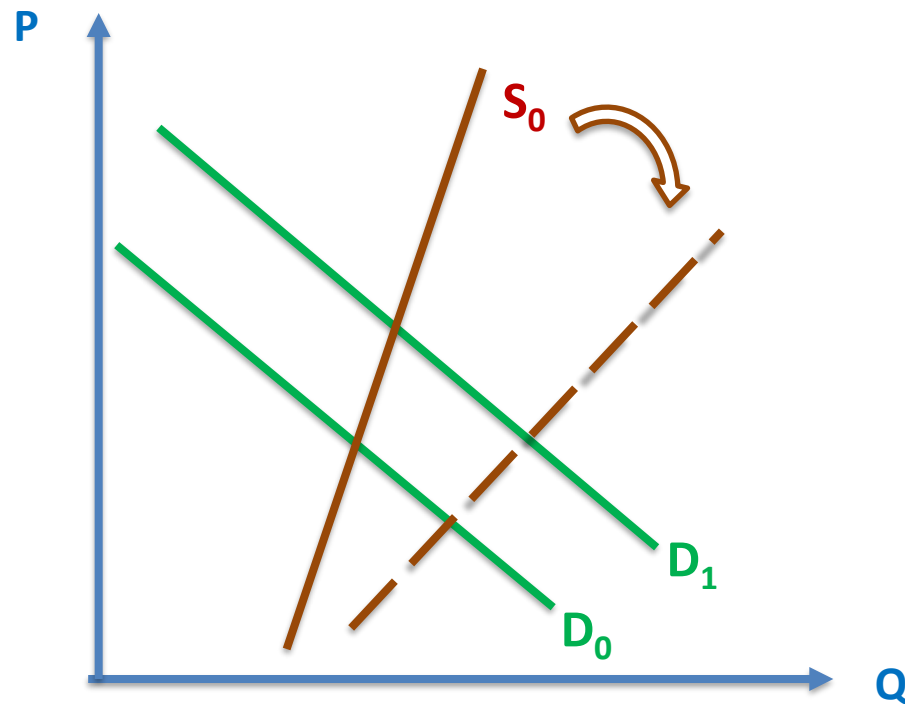
Opportunities will not materialize on their own

Positive scenario


- Investment & innovation
- Economies of scale

Negative scenario

- Queues and rising prices
- Imports

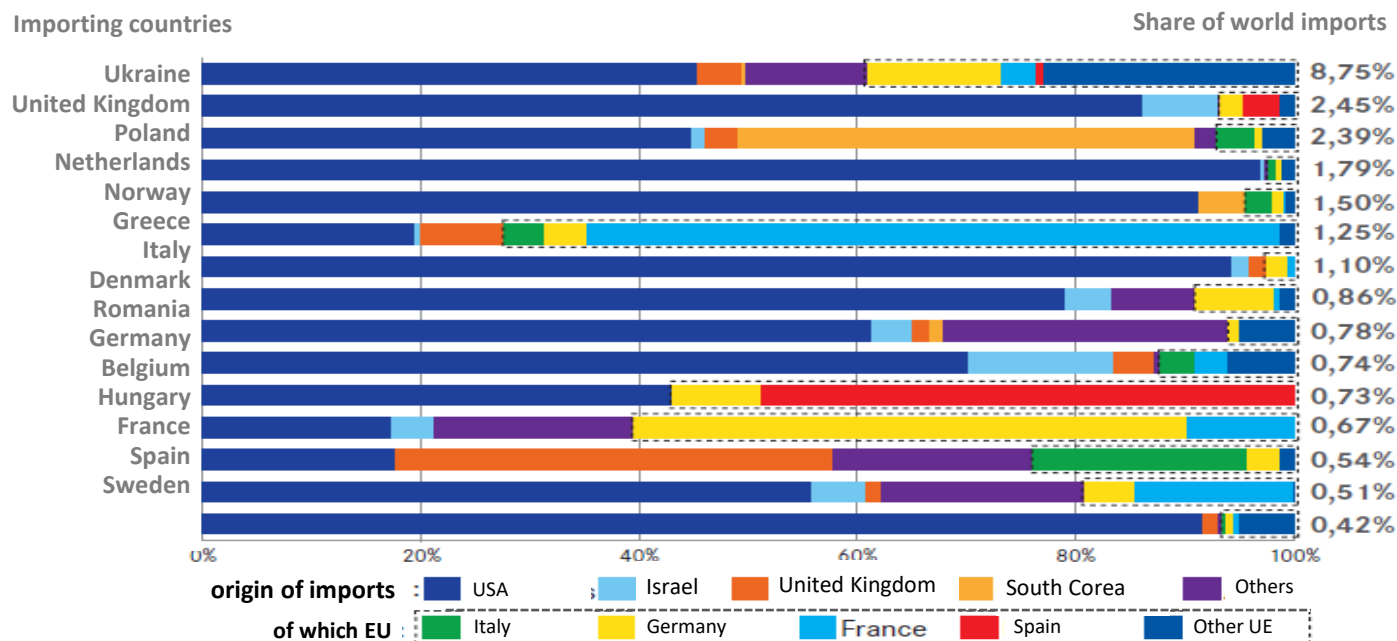


European fragmentation : joint programs

	Effective rate	Target rate
Joint R&T programmes	10%	20%
Joint equipment procurement programmes	18%	35%

European fragmentation: intra-European exchanges

Chart 4. Distribution of arms imports among the largest importers in Europe (average 2020-2024)

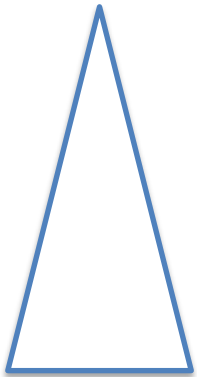


Reading: 40% of France's arms imports come from the UK, 20% from Italy, 17% from the US, 3% from Germany and 18% from the rest of the world.
France accounts for 0.54% of world imports

Source : [SIPRI](#).

Unlocking and breaking down barriers

Incentivizing investment & innovation



- **Visibility of budgetary commitments**
- **Profitability of subcontractors (SMEs) versus Prime contractors**
- **Opening a highly oligopolistic market to new actors**



The zoo



The jungle

Regulating the market power of major prime contractors

Recommendation: Create an independent commission (with security clearance), reporting to the Ministry of the Armed Forces, tasked with:

- **Evaluating the performance of Defence (equipment & maintenance contracts)**
 - **Ensuring fair value-sharing within the supply chain between prime contractors and subcontractors**
 - **Ensuring that procurement calls allow new entrants access to public contracts in segments where this is relevant**
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Developing the European scale: three objectives

1. Strengthen European strategic autonomy for political, military and economic reasons : *1/3 of purchases are imported*
2. Scale : More than 1-to-3 ratio between European and US production series

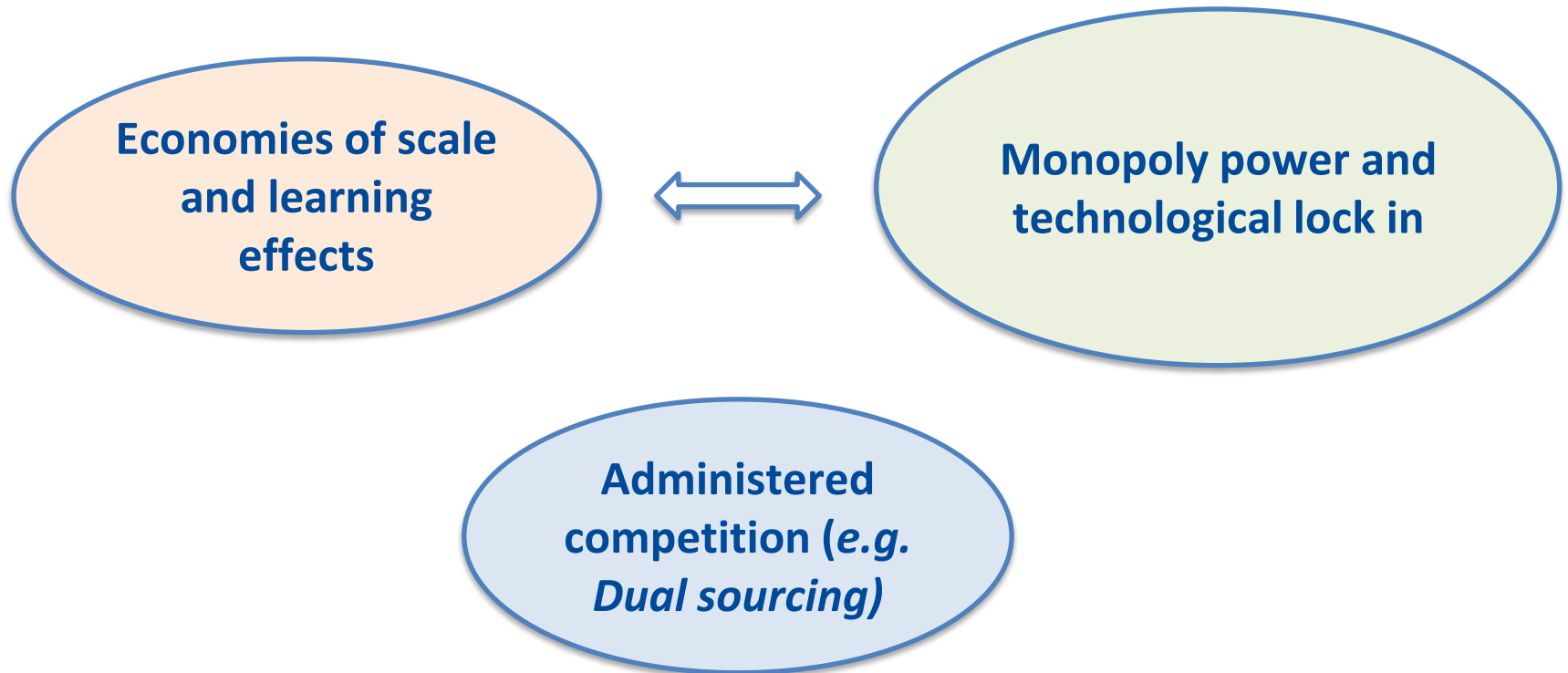
Incidence with a scale elasticity of 0.25

Inputs	Outputs (inputs) ^{1.25}	Unit costs
1	1	1
2	2.4	0,84
3	3.9	0.76

- A tripling of production reduces unit costs by 24%.
- €25bn for a €100bn market.

Developing the European scale: three objectives

3. Maintaining a minimum level of competition



An incremental approach : Three levers (1)

Target 40% joint procurement within the EU by 2030, prioritizing European equipment.

Implement major European equipment programmes as public goods — mainly defensive systems such as ground based air defence :

- Common military needs
- New strategic challenges limiting legacy interests
- Unified program command

An incremental approach : Three levers (2)

Significantly increase the share of R&D in defence investment, by doubling the European Defence Fund budget to at least €3bn per year

