

Financing European defence instruments: towards strategic autonomy

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Abstract: This paper examines the evolution of the European Union's defence financing framework, highlighting the increasing reliance on hybrid and indirect financial instruments to steer Member States' policies. It argues that recent initiatives, particularly the ReArm EU – Readiness 2030 plan, mark a qualitative shift toward strengthening the EU's strategic autonomy and operational capacity in the security and defence domain. By combining supranational funding mechanisms with national fiscal flexibility and policy coordination tools, the EU is progressively shaping a more integrated defence ecosystem. However, this development also raises significant challenges, including fragmentation of instruments, long-term financial sustainability, limited institutional coherence, and concerns regarding democratic accountability and transparency. The analysis situates ReArm EU within the broader trajectory of European integration, emphasizing its implications for the balance between supranational governance and Member State sovereignty.

Key words: European defence; ReArm EU; EU governance;

The need to strengthen the defence sector. The recent deterioration of the international security environment poses complex challenges for the action of the European Union. The war in Ukraine and the conflict in the Middle East have highlighted the limits of the current architecture of the Common Security and Defence Policy (CSDP) of the European Union.

In light of the need for a common response to the new threats emerging on the international stage, attention today is focused on the process of European integration in the field of defence¹.

This is a crucial issue, as the defence industrial sector presents several specificities. In fact, in this market demand comes exclusively from States, which also control the export of defence products and technologies or those with both civilian and military uses.

The need for a cross-cutting and integrated approach, capable of combining multiple policy areas and lines of action, constitutes the conceptual foundation of the notion of strategic autonomy. Strategic autonomy refers to the ability to conduct operations independently of other actors, which requires interoperability and a more sustainable and

¹ Cfr. C. Cellerino, La difesa europea dinanzi alla guerra in Ucraina tra “autonomia strategica” e vincoli strutturali: quali prospettive per la Difesa comune?, in *Il diritto dell'Unione europea*, 2022, p. 9 ss

reliable supply chain based on support and mutual assistance, avoiding duplication and the inefficient use of scarce resources at European or Member State level².

In particular, the debate has focused on strengthening European financing mechanisms in support of the defence sector³. These consist of supranational instruments aimed at the joint use of financial resources deriving from the Union's budget or from ad hoc contributions, with the aim of supporting national and supranational initiatives with implications in the field of defence.

These mechanisms play a crucial role in the Union's action along two directions: on the one hand, the conduct of missions and the adoption of measures of military assistance in favour of third States and international organisations within the framework of the CSDP; on the other, the strengthening of the defence capabilities of Member States.

The latter dimension goes beyond the scope of the CSDP, involving financing mechanisms rooted in various areas of Union competence.

It is therefore necessary to understand how and to what extent the financial lever accompanies and supports the Union's action in the field of defence, allowing the pursuit of the objectives underlying the concept of strategic autonomy.

In this regard, it is necessary to distinguish between instruments operating within the framework of the CSDP—such as the European Peace Facility (EPF)—and those established within the framework of the Union's industrial policy, with particular reference to the European Defence Fund (EDF) and the Act in Support of Ammunition Production (ASAP).

An overview of financial instruments. The first instrument is the European Peace Facility (EPF), which represents the main tool for financing activities with military implications. From a legal perspective, it lies outside the Union's budget, as the Treaties expressly exclude military expenditure from the general budget. The EPF therefore takes the form of an intergovernmental fund, financed by contributions from Member States and managed within the Council. Through this instrument, the Union is able to finance the common costs of military operations, support assistance missions, and provide equipment, including lethal equipment, to third States. Its configuration makes it possible to overcome the formal constraints of primary law, while maintaining a decision-making structure strongly anchored in the intergovernmental dimension.

In addition, the Union has developed instruments aimed at strengthening the defence industrial and technological base, among which the European Defence Fund (EDF)

² European Parliament resolution on the implementation of the European Security Strategy in the framework of the ESDP (2006/2033(INI), para. 13).

³ European Council conclusions of 14 November 2016 on the implementation of the EU Global Strategy in the area of security and defence (EUCO 14149/16).

stands out. Unlike the EPF, the EDF operates within the Union's budget and is based on legal foundations linked to industrial policy and research. It finances collaborative projects among firms and entities from different Member States, intervening both in the research phase, fully covered, and in the development phase, subject to co-financing. The underlying logic is to encourage integration among national industrial systems, reducing fragmentation in the European defence market and promoting innovation, interoperability, and economies of scale. In this way, while formally operating outside defence policy in the strict sense, the EDF significantly contributes to strengthening Member States' military capabilities.

In a similar perspective, but with a more specific function, the ASAP (Act in Support of Ammunition Production) focuses on the production capacity of the European defence industry, particularly in the ammunition sector. It is an instrument designed to respond to urgent needs to increase production, through direct financing of firms and support for the expansion of production lines. From a legal point of view, it falls within the Union's competences in the field of industrial policy, but is clearly oriented towards achieving security objectives. Its function is to remove production bottlenecks and ensure greater readiness of the European industrial system in crisis situations.

Another relevant mechanism is EDIRPA (European Defence Industry Reinforcement through Common Procurement Act), which operates at the level of public demand for armaments. It provides financial incentives for Member States that carry out joint procurement of military equipment. It does not directly finance military capabilities, but aims to promote cooperation among States, fostering economies of scale, interoperability, and rationalisation of expenditure. From a legal perspective, EDIRPA falls within internal market and competition policies, but has significant effects on the military organisation of Member States, indirectly influencing their procurement choices.

Finally, attention must be paid to the role of the Common Foreign and Security Policy (CFSP) budget, which constitutes the component of the Union budget devoted to financing external actions. However, it is subject to an important structural limitation: it cannot finance expenditure with military or defence implications. As a result, its scope is limited to civilian missions and diplomatic or non-military stabilisation activities. This exclusion has led to the development of parallel instruments, such as the EPF, giving rise to a dual system in which civilian expenditure is charged to the Union budget, while military expenditure is financed through instruments outside it.

Alongside these instruments, in a complementary position, is the intervention of the European Investment Bank (EIB), which, although not directly financing military activities, contributes to the development of projects with dual civilian and military use. Its role consists of facilitating access to credit and supporting investments in technological and infrastructural sectors relevant to defence, thus operating indirectly but significantly

in strengthening European capabilities.

Taken together, these mechanisms outline a system of defence financing characterised by marked legal and functional heterogeneity. Alongside intergovernmental instruments such as the EPF, there are instruments fully integrated into the Union's legal framework, such as the EDF, as well as industrial and coordination measures such as ASAP and EDIRPA. What emerges is a model in which the use of financial leverage allows the Union to exercise growing influence in a sector formally excluded from full integration, achieving a form of indirect but substantively significant intervention.

The ReArm EU. The increase in conflicts has led the President of the European Commission to send a letter to European leaders presenting the ReArm Europe plan⁴, which is placed within the strategic framework outlined by the White Paper “Readiness 2030”⁵. The plan is structured around five fundamental pillars: i) the establishment of a new instrument financed with resources from the EU budget to grant loans to Member States wishing to strengthen their defence capabilities; ii) the coordinated activation of the national escape clause provided for in the reformed Stability and Growth Pact; iii) the mid-term revision of cohesion policy programmes to allow Member States to direct a larger share of funds towards the defence sector; iv) a renewed role of the European Investment Bank (EIB) in mobilising private financing towards the European defence industry; v) the strategy for the Savings and Investments Union, aimed at ensuring broader access to capital markets and financing options for firms operating in the defence sector. The extraordinary European Council welcomed the Commission's initiative⁶, as did the European Parliament which, in its resolution of 12 March, supported the need for Member States to increase funding for defence and security⁷.

The Commission then presented the ReArm Europe – Readiness 2030 plan on 19 March. The defence package includes the White Paper on European defence, the Communication on the national escape clause for strengthening the defence sector⁸, the legislative proposal to establish a financial instrument called Security Action for Europe (SAFE)⁹, and the

⁴ Letter from the President of the European Commission to the Member States of 4 March 2025 and press release by the President of the European Commission on the “defence package” of 4 March 2025.

⁵ European Commission (2025), “Joint White Paper on European Defence Readiness 2030”, 19 March.

⁶ European Council conclusions on European defence of 6 March 2025.

⁷ European Parliament (2025), “Resolution on the White Paper on the future of European defence”, 12 March.

⁸ European Commission (2025), “Communication on accommodating increased defence expenditure within the Stability and growth pact”, 19 March.

⁹ European Commission (2025), “Proposal for a Council Regulation establishing the Security Action for Europe (SAFE) instrument through strengthening the European defence industry”, 19 March.

Communication on the Savings and Investments Union¹⁰.

As a further measure, on 1 April the Commission proposed incentives for Member States wishing to redirect unused cohesion funds towards new EU priorities, including strengthening defence capabilities¹¹.

In the context of the mid-term review of the 2021–27 cohesion policy programming, the Commission proposed amendments to the regulation of the European Regional Development Fund (ERDF)¹² to integrate its new strategic priorities and introduce greater flexibility to facilitate the use of resources and accelerate programme implementation. In particular, the Commission intends to create two specific lines for defence and security within the ERDF: i) strengthening production capabilities in the defence sector, allowing Member States to reprogramme funds to improve the productive capacity of defence companies, regardless of their size and geographical location; ii) resilient infrastructure for military mobility, promoting investments in dual-use transport infrastructure for civilian and military purposes. The Commission thus intends to expand the scope of the ERDF in favour of productive investments by large companies, and not only SMEs, where industrial projects contribute to the objectives of the Strategic Technologies for Europe Platform (i.e. sectors such as semiconductors, artificial intelligence, quantum technologies), strengthen defence capabilities, or contribute to a European project of common interest in the defence sector.

The effectiveness of the ReArm Europe – Readiness 2030 initiative will depend on multiple structural and governance factors. First, the willingness of Member States to prioritise cooperative strategies over national logics will be decisive, overcoming the traditional fragmentation of procurement procedures in favour of genuine European industrial integration. Even more crucial, however, will be to transform such integration into concrete operational synergies and not merely a quantitative increase in resources allocated to the sector. From a financial perspective, the Commission’s initiative will have to contend with possible tensions in sovereign bond markets arising from increased borrowing by Member States that decide to raise defence spending in the short term.

Strengthening the EU’s strategic autonomy in security and defence will require the definition of a long-term framework ensuring compatibility between security needs and the sustainability of public finances, in line with the constraints of the new European economic governance framework.

¹⁰ European Commission (2025), “Communication on savings and investments Union, A strategy to foster citizens’ wealth and economic competitiveness in the EU“, 19 March.

¹¹ European Commission (2025), “Communication: A Modernised Cohesion Policy – Mid-term Review”, 1 April.

¹² European Commission (2025), “Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review,” 1 April.

The Ukraine Facility. The Ukraine Facility of the European Union is much more than a simple economic aid program for Ukraine. It is a financial instrument established by Regulation (EU) 2024/792 of the European Parliament and the Council, based on Articles 212 and 322 of the Treaty on the Functioning of the European Union (TFEU), with the purpose of supporting the financial, economic, and institutional stability of Ukraine during the war.

The instrument provides up to 50 billion euros in grants and loans for the period 2024–2027. It is financed through the EU budget and through common European borrowing mechanisms, following a model already used with NextGenerationEU. The funds are linked to specific reforms and conditions agreed between Ukraine and the European Commission, according to the principle of financial conditionality that has become central in EU economic governance.

From a legal point of view, the Ukraine Facility is not formally a military instrument. This is also due to the limits established by the EU Treaties. Article 41(2) of the Treaty on European Union (TEU) states that expenditures arising from military or defence operations cannot be financed directly from the EU budget.

For this reason, the EU created separate mechanisms such as the European Peace Facility, established by Council Decision (CFSP) 2021/509. This instrument operates outside the ordinary EU budget and allows Member States to finance military assistance and defence support.

Within this framework, the Ukraine Facility plays a complementary but strategically essential role. The European Union recognizes that security does not depend only on weapons and military capacity, but also on the economic, administrative, and social stability of a State. Supporting infrastructure, public services, energy systems, and governance therefore becomes an indirect but important contribution to European security.

This is the broader political significance of the instrument. Through common borrowing, shared financial tools, and coordinated strategic planning, the EU is gradually developing elements of a common European defence policy, even without creating a fully integrated European army.

In this sense, the Ukraine Facility reflects the objectives expressed in Articles 21 and 42 TEU, which provide that the Union shall develop a common foreign and security policy aimed at preserving peace, strengthening international security, and progressively defining a common European defence policy.

The real innovation is not only the amount of money involved, but the fact that Europe is using common economic and financial instruments to pursue shared geopolitical and security objectives. It is still an indirect form of defence integration, but it represents a

concrete step toward greater European strategic unity.

A comparison with NATO financing. A comparison between EU law mechanisms and similar instruments operating within NATO appears particularly appropriate.

Similarly to the CSDP, NATO constantly uses its resources not only to cover the costs of maintaining and operating its civil administration and military apparatus, but also to develop military capabilities. For this purpose, the NATO Security Investment Programme (NSIP) is established. It constitutes one of the three common budgets of the organisation and is dedicated to financing the development of military infrastructure and capabilities¹³. As a form of common funding, the NSIP is based on the so-called “over and above” principle. According to this principle, development and acquisition of military installations, command and control systems and other types of military capabilities are eligible for common funding when their costs could not reasonably be borne individually by the Allies. In particular, it is the task of the Resource Policy and Planning Board (RPPB)—the main advisory body of the North Atlantic Council on the management of common funds—to define priorities for capability development in line with the strategic guidelines set by the North Atlantic Council. In this activity, the RPPB verifies whether each package of measures can be funded according to the “over and above” principle. The NSIP budget is financed by direct contributions from Member States of the Alliance, allocated on the basis of their gross national income (GNI). The financial ceiling of the instrument is set annually and has recently experienced a significant increase compared to the past, due to new threats to peace in the European continent following Russia’s aggression against Ukraine.

Alongside this direct funding regime, there are forms of joint financial support by two or more Member States of the Alliance for the development of specific military capabilities. Among various initiatives undertaken in this field, it is appropriate to mention the 21 High Visibility Projects currently active, aimed at facilitating the development of capabilities through specific commitments undertaken at ministerial level by participating States. The NATO Support and Procurement Agency (NSPA) contributes to the implementation of such projects by acting as an intermediary between the participating States and defence industry actors. It is therefore possible to note that NATO’s contribution to capability development takes place along two distinct lines: direct funding through a dedicated fund and support in the definition and implementation of multinational projects.

Conclusion. The evolution of European defence financing instruments shows how the

¹³ The other two are the Civil Budget and the Military Budget, dedicated respectively to covering the costs arising from the organisation’s institutional structure and those related to the military command and control apparatus.

European Union is progressively strengthening its role in a sector that, formally, remains largely under the sovereignty of Member States. In the absence of full integration of defence policy, financial leverage currently represents the main tool through which the Union exerts concrete influence on the strengthening of European military and industrial capabilities.

The analysis highlights, first and foremost, the deeply heterogeneous nature of the European defence financing system. Alongside intergovernmental instruments such as the European Peace Facility (EPF), established outside the Union budget to circumvent Treaty limits on military expenditure, there are instruments fully integrated into the EU legal order, such as the European Defence Fund (EDF), ASAP and EDIRPA, mainly based on Union competences in the field of the internal market, research and industrial policy.

This plurality of legal bases shows that the strengthening of European defence occurs not so much through a direct “militarisation” of Union competences, but rather through the expansion of economic, industrial and financial instruments aimed at achieving common strategic objectives. In this sense, European strategic autonomy emerges as a cross-cutting concept requiring coordination between security, industrial policy, technological innovation and economic governance.

Particularly significant is the fact that recent geopolitical developments, especially following the war in Ukraine, have accelerated this process. The ReArm Europe – Readiness 2030 plan marks a further qualitative leap in the European approach to defence, introducing new forms of common borrowing, greater fiscal flexibility, the involvement of the European Investment Bank and the possibility of allocating cohesion policy resources to strengthening production and infrastructure capacities in the defence sector. However, significant challenges remain. First, the European system continues to be characterised by strong decision-making and industrial fragmentation, stemming from the persistent centrality of national interests in defence and military procurement. Moreover, increasing defence expenditure raises questions about long-term financial sustainability and its compatibility with the new European economic governance framework.

The comparison with NATO further highlights these limitations. While the Atlantic Alliance has consolidated mechanisms of common funding specifically aimed at the direct development of shared military capabilities, the European Union continues to operate mainly through indirect and sectoral instruments. Nevertheless, the increasing use of common funds, industrial programmes and coordination tools demonstrates a progressive Europeanisation of defence policies.

In conclusion, the system of European defence financing represents today one of the most significant laboratories of European integration. Through financial leverage, the Union is gradually building an autonomous strategic dimension, even in the absence of a true

common defence. The actual achievement of strategic autonomy will ultimately depend on the ability of Member States to transform existing financial instruments into a genuine shared political and industrial project, based on stable cooperation, integration of production capacities and strategic coordination at European level.