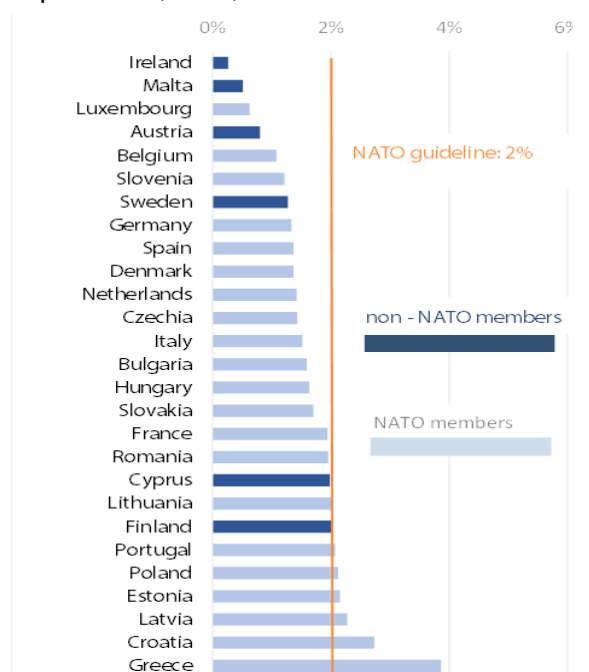


## Member States' defence investment and capability gaps

Russia's war on Ukraine has been a wake-up call for many EU Member States when it comes to their defence budgets and capabilities, leading them to announce significant increases in their defence budgets after collaborative spending reached new lows in 2020. EU leaders made significant commitments on defence investment and capabilities at the Versailles Summit, which were subsequently underlined in the Strategic Compass. As a first step, the Commission presented a defence investment gap analysis on 18 May 2022. The analysis will be discussed at the special meeting of the European Council on 30-31 May 2022.

### EU Member States' defence investment and capability gaps

Figure 1: EU Member States' defence expenditure, 2021, in % of GDP



Data Source: SIPRI, 2022.

The 21 EU Member States that are also NATO members have long been guided by the 2% of GDP defence spending commitment under NATO that was formalised at the 2014 Wales Summit. Allies agreed to 'move towards the 2 per cent guideline within a decade'. However, in 2021 only seven (Lithuania, Latvia, Estonia, Croatia, Poland, Portugal and Greece) of the 21 Member States that are also NATO members spent 2% of GDP on defence (see Figure 1). EU Member States participating in Permanent Structured Cooperation (PESCO) (all except Denmark and Malta) have also agreed to 'regularly increase defence budgets in real terms' under their PESCO commitments. While defence budgets have increased in real terms since 2018/2019 (prior to that, they had not even reached pre-2008 financial crisis levels), this follows years of chronic under-investment in defence in the majority of Member States. Meanwhile, strategic competitors such as Russia and China have increased their defence budgets by almost 300% and nearly 600% respectively over the last decade, compared to an approximate 20% increase collectively by EU Member States in the same period. China's defence budget in 2021 – US\$293 billion (€273 bn – 1.7% of GDP) – has surpassed the combined defence spending of EU Member States by around €220 billion. Russia invested US\$65.9 billion (€61.5 bn – 4.1% of GDP) in its defence in

2021. The United States continues to top global military spending at US\$801 billion in 2021 (€750bn – 3.5% of GDP) – an increase of over 60% in the last decade.

For several Member States, Russia's aggression against Ukraine has been a wake-up call when it comes to defence budgets and the necessity of investing in defence capabilities. Germany, Denmark, Romania, Italy, Sweden, Austria, Poland and the Netherlands are among those that have announced increases in their defence spending. In total these announced increases would amount to a combined additional €200 billion in defence spending. While these announced increases are promising, procurement of collaborative defence investment has gone down in recent years and reached a new low, with only 11% of equipment having been procured collaboratively in 2020. This is not even close to the collaborative equipment procurement collective benchmark of 35% under the PESCO binding commitments, and misses the goal of the 2009 Defence Procurement Directive, which sought, inter alia, to reduce the persisting fragmentation of European defence markets through increased competition and economies of scale. A 2019 EPRS study estimates the cost of the lack of cooperation on defence investment between Member States at €22.15 billion; 30% of defence expenditure could potentially be saved through increased collaborative defence spending. The lack of

collaborative defence also has strategic consequences: the first Coordinated Annual Review on Defence (CARD) [report](#) finds that the fragmented EU defence landscape has a negative impact on the ability to conduct joint operations. Thus, more collaboration would create a significant operational advantage.

At the [Versailles Summit](#), EU leaders [agreed](#) not to only 'invest more' but also to invest 'better' by boosting collaborative defence procurement and investment. Moreover, at their [meeting](#) on 24-25 March, they endorsed the [Strategic Compass](#), which recalls the agreement to substantially increase defence spending, based on commonly agreed objectives (to be defined by mid-2022), and to spend better by increasing interoperability and reducing fragmentation, especially building on existing EU tools such as the European Defence Fund (EDF) and PESCO. The Commission will propose further incentives to enhance collaborative investments in defence, such as a VAT waiver, as detailed in its [contribution](#) to EU defence. As an important part of the EU's capability ambition revolves around innovation, the [establishment](#) of the Hub for EU Defence Innovation within the European Defence Agency (EDA) on 17 May – a platform to encourage and assist cooperation on defence innovation – is an important milestone for the EU's capability ambitions.

As a first step in implementing defence investment commitments, EU leaders tasked the Commission and EDA to complete a defence investment gap analysis; this was [presented](#) on 18 May 2022. It finds gaps in defence expenditure (see above), defence industrial gaps and capability gaps. It notes that the defence industry remains fragmented, and structured along national lines. In terms of capabilities, the most urgent gaps are replenishing stockpiles, replacing Soviet-era legacy systems and reinforcing air and missile defence systems. According to the analysis, in the medium- to long-term the focus should be on developing and operationalising the 'Eurodrone', upgrading and expanding existing main battle tanks and armoured fighting vehicles, strengthening naval forces, improving satellite-based secure connectivity, launching a fully fledged cyber-defence capability, and enhancing military mobility. These priorities are [coherent](#) with those of NATO and will thus also be beneficial to the Alliance. While [experts agree](#) with the analysis, they underline that concrete implementation will be essential. To remedy this, the Commission proposes:

- **A defence procurement task force:** the task force will support coordination and assist in closing very short-term procurement needs. It will also work with the [clearing house](#) set up to coordinate supply and demand for weapons deliveries to Ukraine.
- **A short-term EU instrument to reinforce defence industrial capabilities through joint procurement:** an extra €500 million of the EU budget will be proposed for fast-track adoption and committed to incentivising Member States to address urgent capability gaps collaboratively.
- **An EU framework for joint defence procurement:** the Commission will propose a European Defence Investment Programme (EDIP) regulation in the third quarter of 2022, which will establish the framework for European Defence Capability Consortia (EDCC). Through these consortia, EU Member States jointly procure defence capabilities that are developed in a collaborative way, for use by its participants. The consortia will benefit from a VAT exemption and may be eligible for associated EU financing in cases of high EU interest.
- **EU joint defence strategic programming and procurement:** the Commission suggests moving progressively towards a joint EU defence and programming and procurement function to enable Member States to better define the capability priorities with greatest urgency.

The Commission further suggests that the mid-term review of the EU long-term budget should consider strengthening the budgets of the [EDF](#) and for [military mobility](#). The special [meeting](#) of the European Council on 30-31 May 2022 will be a first opportunity for EU leaders to discuss the gap analysis.

## European Parliament position

Parliament consistently [calls](#) for more investment in defence and collaborative procurement, and strongly supports EU defence initiatives such as PESCO and the EDF (and an increased budget for them). In a recent [report](#), adopted by the Committee on Foreign Affairs (AFET) on 10 May, the Committee underlines the need for political will to make genuine progress in defence cooperation. It recommends increasing the defence budgets of EU Member States and acknowledging NATO's defence expenditure guideline of 2 % of GDP. AFET underlines that the gaps identified by CARD must be closed, calls for the EDF to be complemented with a joint procurement mechanism, and further calls on the EU to develop plans for the joint EU procurement of military systems. The report is expected to be voted in [plenary](#) in June 2022.

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