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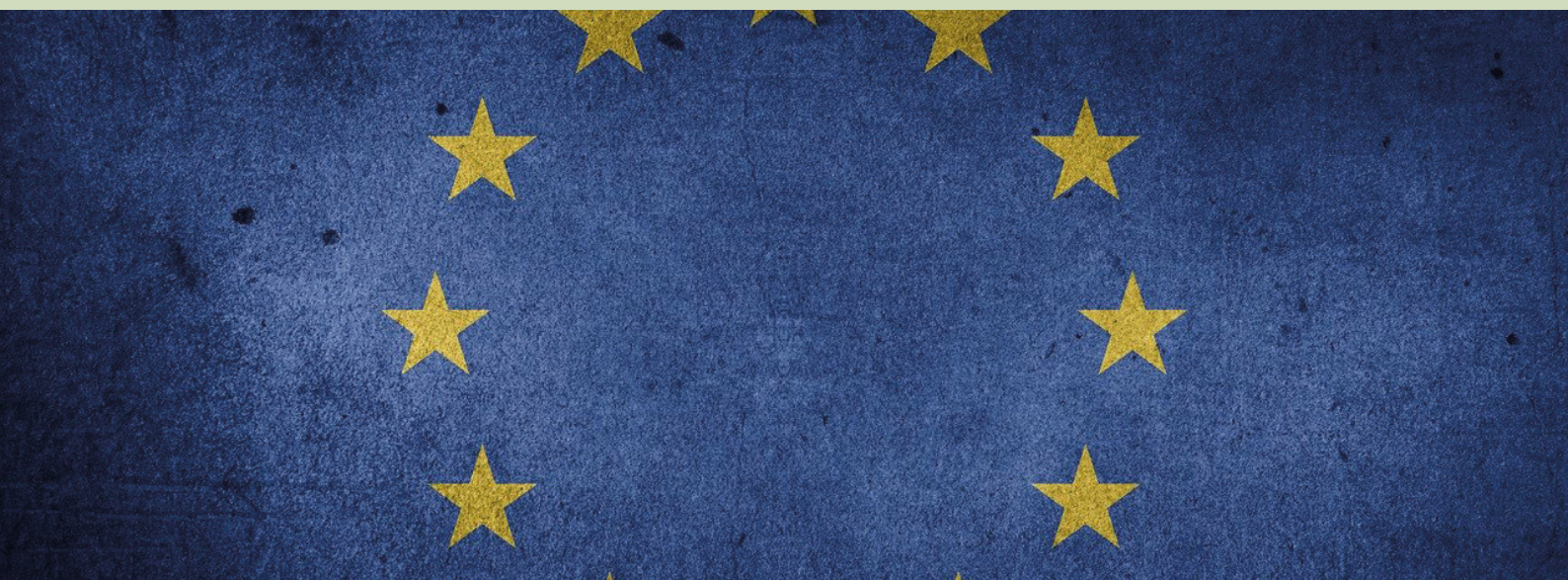
# **“WARTIME ECONOMY”: FROM BUZZWORD TO REALITY?**

## **CHANGES IN EUROPEAN DEFENCE INDUSTRIAL STRATEGIES SINCE FEBRUARY 2022**

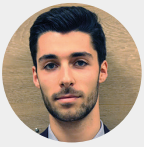
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**Gaspard Schnitzler** / Senior Research Fellow and  
Head of the Defence and Security Industry Programme, IRIS

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## AUTHOR'S PRESENTATION



**Gaspard Schnitzler** / Senior Research Fellow and  
Head of the Defence and Security Industry  
Programme, IRIS

Gaspard Schnitzler is Senior Research Fellow at the French Institute for International and Strategic Affairs (IRIS), where he heads the Defence & Security Industry Programme and the German Observatory. Specialised in European defence policy and armament related issues, his current research focuses on defence industrial strategies, Franco-German defence cooperation, and the key trends affecting the European defence market. Before joining IRIS, Gaspard worked as a prospective studies officer for the French Ministry of Defence.



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The Defence and Security Industry Programme, directed by **Gaspard Schnitzler**, Senior Research Fellow at IRIS, seeks to provide information to policymakers, industry officials and the general public on defence and armament issues and security technology. The Programme studies the broad outlook and trends in this field. It draws notably on the Armament Industry European Research Group (ARES Group) network.

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## EXECUTIVE SUMMARY

- This note assesses the main changes in defence industrial strategies that have taken place since February 2022 in four European countries: France, Germany, Italy, and the UK. It shows that the level of awareness of the need to support the ramp-up of the defence industry, as well as the evolution of defence industrial strategies, varies from one country to another. This is reflected both in official speeches and in the measures that have been announced and/or implemented. France and the UK seem to be the further ahead in their thinking and action, than Germany and Italy. However, there is a clear gap between words and deeds. In most cases, concrete actions in favour of the industry remain limited.
- In the four countries studied, the main levers identified to support the ramp-up of the defence industry include: increasing orders and building up stockpiles to give the industry long-term visibility, reforming procurement procedures to speed up contracting, strengthening the security of supply and reducing external dependencies by relocating part of production, supporting export to make the defence industry more competitive, investing in professional training to address the human resources issue, as well as supporting the defence industry's access to private finance.
- Concrete measures implemented so far include reducing technical specifications to cut equipment costs and lead times, identifying and mapping bottlenecks in supply chains, releasing funds to support the relocation of particularly critical activities, and implementing multiannual framework contracts for ammunition and missiles.
- However, there is a clear paradox when it comes to capability choices in Germany and Italy. There is a discrepancy between the rhetoric - which stresses the need to support and strengthen the national defence industry - and concrete actions, since capability choices focus primarily on the purchase of foreign equipment. In France and Italy, there is a gap between the desire to give the defence industry long-term visibility to ramp-up and the prudence of public orders.
- While all four countries agree on the need to renew the links between the State and the defence industry, it is interesting to note that they also agree that a large part of the effort must be made by industry itself.

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"There is — and I say this clearly — the necessity to push the industrial base and move it to a 'wartime economy', if you permit me to put it in those terms."

Thierry Breton, European Commissioner for Internal Market, May 3, 2023

## INTRODUCTION

From “Zeitenwende” to “économie de guerre”, numerous statements about the need to overhaul defence industrial strategies have been made by European decision makers since Russia’s invasion of Ukraine in February 2022. While semantic choices vary from one country to another - the term "war economy" being far from unanimous - most Europeans agree on the urgency of the situation and the exceptional measures it calls for. Indeed, the ongoing war in Ukraine has highlighted the fragility of the European industrial model, calling for reforms to:

- Offer greater visibility to defence companies, so that they can ramp-up their production by investing in their production tools;
- Make supply chains more secure and resilient, by reducing external dependencies, relocating productions, removing bottlenecks and building up strategic stockpiles;
- Speed up procurement and reduce lead times, by simplifying the expression of need and streamlining standards and procedures.

However, all these statements do not seem to have led to in-depth changes, and the level of reform varies from one Member State to another. This raises a fundamental question: Is “war economy” just a buzzword or a reality that is being translated into concrete actions?

**Based on a comparative analysis of four European countries - France, Germany, Italy, and the UK - this paper aims to analyse the changes in defence industrial strategies since the beginning of the war in Ukraine, as well as their benefits, risks, and limits.** Two years after the start of the war, it intends to take stock of the progress achieved so far and to identify possible divergences between public statements and the implementation of concrete measures in support of the defence industry. It also aims to assess how these changes in defence industrial strategies could fulfil the DTIB’s needs in terms of scaling, resilience, agility, and flexibility in procurement processes.

## THE FRENCH CASE: ASSESSMENT OF THE CHANGES IN INDUSTRIAL STRATEGIES AND POLICIES SINCE FEBRUARY 2022

Among the four European countries studied in this paper, France is by far the most advanced in its thinking on the reforms needed to support the ramp-up of its defence industry.

The notion of “war economy” or “wartime economy”, which traditionally refers to the idea mobilising an entire economy for war production during a time of conflict, was first mentioned publicly by France a few months after the start of the war in Ukraine. During a speech at the Eurosatory arms fair on June 13, 2022<sup>1</sup>, French President Emmanuel Macron announced the introduction of “war economy” measures to help the French defence industry ramping-up in the wake of Russia’s invasion of Ukraine. Based around a threefold objective of “producing more, better and faster”, these measures were divided into 5 pillars: visibility, simplification, securing supply chains, human resources, and access to financing.

Three months later, on September 6, 2022, the French Minister of Armed Forces officially launched the first seminar on the “war economy”, gathering French defence companies, members of the armed forces, the DGA and the SGDSN.<sup>2</sup> Following this seminar, from September 2022 to April 2023, meetings were held on a weekly basis around 5 working groups, made up of industrialists and representatives of the ministry (DGA and EMA). These so-called “GT transformation” dealt with the following topics: Supply chain; Armaments procurement and operations; Human resources; Standards and regulations; Resilience of production tools.<sup>3</sup> Not all the working groups were officially closed, and some continued after April 2023. Although their content remains confidential, some working groups have come up with concrete proposals, notably on stock management, procurement, and the relationship between prime- and subcontractors.<sup>4</sup>

Three major directions have been identified as part of these working groups:

- **Transforming the French MoD, by:**
  - Simplifying regulatory requirements to shorten equipment development and manufacturing cycles;
  - Encouraging faster deliveries;
  - Reviewing risk sharing between the DGA and the industry;

<sup>1</sup> “Déclaration de M. Emmanuel Macron, président de la République, sur les industries d’armement française et européenne, à Villepinte le 13 juin 2022”, Vie publique, June 2022. [Link](#).

<sup>2</sup> “Économie de guerre : les quatre engagements de Sébastien Lecornu”, ministère des Armées, Sept. 2022. [Link](#).

<sup>3</sup> From January 2023 onwards, the 5 working groups (GT) were divided into “sub-working groups”.

<sup>4</sup> Interview with a representative of the French defence industry, October 2023.



- Increasing exchanges between the MoD and the industry on the risks for the DTIB to increase the resilience of the defence industry's production facilities.
- **Strengthening the industry's commitments** in return for the simplification and visibility provided by the MoD, by:
  - Better controlling the supply chain, by building up the equivalent of 6 months' buffer stocks of strategic components, relocating certain activities (mainly propellant explosives for large-calibre ammunition and defence electronics) and creating recycling channels (particularly for titanium, 40% of which is produced in Russia).
  - Securing human resources for production.
  - Promoting additive manufacturing.
  - Reducing companies' vulnerabilities, especially in the cyber field.
- **Taking better into account human resources issues**, by:
  - Adapting the French labour code (i.e. by removing the ceiling on overtime and increasing the period of validity of work permits from 12 to 36 months).
  - Implementing training plans for certain professions where there is a shortage of manpower.
  - Asking civilian companies to use their production capacities and human resources to produce military equipment in case of a crisis.

### *Towards a paradigm shift?*

While French defence industrial policy has long been guided by two fundamental principles: maintaining DTIB skills while keeping equipment costs down for the public purchaser, the French MoD recognizes that production cycles are no longer adapted to the current context and that the low volumes of public orders in recent years have naturally led to a reduction in French DTIB production capacity. For example, before February 2022, France only had 76 CAESAR howitzers in service, and prior to July 2022 (where an order was placed to replace the CAESARs given to Ukraine), the last order dated back to 2011. In addition, following civilian sector practices, stockpiles have been reduced to a minimum, with a view to saving money and optimising management through a "zero stockpile policy".

The MoD's objective now is to rethink this model, to make it consistent and compatible with the needs arising from the war in Ukraine (recreating mass and ramping-up the industry),

while ensuring that it remains financially sustainable for the State. To achieve this, the French MoD has identified 3 main levers<sup>5</sup>:

- Building up strategic stockpiles;
- Strengthening sovereignty (through a relocation agenda);
- Diversifying supplies.

It is interesting to note that the French MoD does not intend to bear the costs of ramp-up alone, and according to its logic, the effort should above all be borne by the industry. This is why, in exchange for greater regulatory flexibility, the MoD is asking the industry to lower its costs and to assume a greater share of the risks.

As an illustration of this ongoing change, the DGA has launched an internal reorganisation of its department dedicated to the defence industry. As part of the "DGA impulse"<sup>6</sup> plan launched by the new DGA, Emmanuel Chiva, a new *Defence Industry Directorate* has been created within the DGA, the result of the merger of the *Industrial Affairs and Economic Intelligence Department* (S2IE) and the *Quality Department*, to steer this new industrial strategy more effectively. In addition, a "Reactive Acquisition Force" (FAR<sup>7</sup>) has been set up to accelerate contractualisation.<sup>8</sup>

### *Relevant measures with limited effects so far*

For each of the 5 pillars of the "war economy" mentioned above, the French MoD has announced a certain number of priorities and/or measures to be implemented, which are detailed below.<sup>9</sup>

#### **Giving visibility to prime- and subcontractors to boost investments**

Without medium- and long-term visibility, meaning without a guarantee of sufficient public orders over a given period, defence companies cannot take the financial risk of investing in their production facilities on a long-term basis. Although the DGA seems to be aware of this difficulty and has announced the future **introduction of global orders** for a certain number of essential items of equipment, deemed to be a priority in the event of a high-intensity conflict, these orders have not been forthcoming. The same applies to the new military programming law (*LPM 2024-2030*), which, despite an increase in funding (€413 billion over 7 years),

<sup>5</sup> "Point presse du ministère des Armées. Discours d'Alexandre Lahousse (S2IE)". Feb.9 2023. [Link](#).

<sup>6</sup> *Vision stratégique du Délégué général pour l'armement*, DGA, March 2023. [Link](#).

<sup>7</sup> Force d'acquisition réactive

<sup>8</sup> "Audition du DGA Emmanuel Chiva AN sur PLF 2024", Assemblée nationale, Oct. 17, 2023. [Link](#).

<sup>9</sup> "Économie de guerre : produire plus et plus vite, le défi !", ministère des Armées, March 2023. [Link](#).



remains insufficient and does not offer companies the long-term visibility they were hoping for, as most of the orders resulting from it predate the war in Ukraine. Thus, for example, apart from a new order for 100 *Mistral* surface-to-air missiles, MBDA had not received any new orders between February 2022 and December 2023. The MoD, for its part, considers that the €100 billion earmarked over the next years for major armament programmes and the €49 billion earmarked for equipment maintenance should provide this visibility. In his greetings to the armed forces on January 22, 2024, the DGA welcomed the fact that 2023 was a “record year”, with orders worth €20.3 billion, including €9 billion orders in December, and “400 contracts signed in only 5 weeks”. He also praised the fact that “around 100 production bottlenecks had been resolved, and that some 15 industrial relocation projects had been launched”.

However, although the French MoD welcomes the fact companies have already reduced their production times<sup>10</sup>, it is interesting to note a certain caution, as illustrated by the words of the Director of S2IE, Walter Arnaud: “We also have to prepare for a scenario in which the war stops. That's why every measure taken concerning the war economy includes reversibility mechanisms. (...) We have to produce more and faster, but we also have to prepare all the means and mechanisms to reduce production if necessary, in the light of the international situation”.<sup>11</sup>

### **Simplifying products to reduce costs and lead times**

One of the priorities of the French “war economy” measures is to simplify products, over their entire life cycle (expression of needs, use, operational maintenance, and withdrawal). Thus, at the expression of need stage, the MoD intends to get the DGA, the armed forces and the industry work more closely together, to optimise current processes. Rather than coming to the industry with very detailed specifications, the DGA pushes the idea of first asking the industry to quantify the various specifications in terms of costs and lead times, to carry out a value analysis, before deciding which one to keep. This would allow the DGA to determine whether it is preferable to develop equipment that meets 100% of the customer's requirements, but would be potentially costly and time-consuming to deliver, or equipment that does not meet 100% of the requirements, but meets a large proportion of them, and would be rapidly available. The DGA intends to experiment with this new approach as part of the armament of Safran's *Patroller* UAV.<sup>12</sup>

<sup>10</sup> French company Nexter, for example, has moved from a 30-months to an 18-months production cycle for the *CAESAR* howitzers, anticipating future procurements. [Link](#).

<sup>11</sup> “France - Économie de guerre : montée en puissance et réversibilité”, Interview with Walter Arnaud (DGA, S2IE) by Hawa-Léa Sougouna, Eurosatory, May 2023. [Link](#).

<sup>12</sup> Ibid. “Point presse du ministère des Armées. Discours d’Alexandre Lahousse (S2IE)”. Feb.9 2023. [Link](#).

Another measure consists of reducing requirements and standards in contracts between DGA and manufacturers, with an initial target of a 20% reduction in current standards. Discussions are said to be underway to begin by listing the requirements currently in force to then identify possible ways of simplifying them. Indeed, certain standards, particularly from the civil sector, have consequences on production lead times which seem incompatible with the need to speed up the production. This is for example the case for the handling of explosives, which is strictly regulated by the French Labour Code, thus making certain missiles qualification tests impossible in France, and forcing companies to test their equipment abroad, thus generating additional costs and delays.<sup>13</sup>

While these simplification measures should be welcomed by the defence industry, the DGA's *sine qua non*-determination to pass on a greater proportion of the risks to industrial stakeholders is likely to put them on edge. Moreover, the DGA considers that a reduction in standards also implies from the industry to reduce their costs and delays.

### Securing supply chains and reducing bottlenecks to support the ramp-up

The French MoD has identified the security of supply chains as one of the main levers for action to help the French defence industry gain momentum. The DGA has therefore set about identifying the main bottlenecks that could be a limiting factor in increasing and accelerating production. Thus, around 160 (4%) of the 4 000 French defence SMEs have been identified as not currently being able to speed up their production on demand.<sup>14</sup> As an example, the acceleration of 155mm artillery shell production is hampered by the lack of powder for modular charges and by the impossibility of carrying out the phase of pouring the explosive material into the shells more quickly.<sup>15</sup> The DGA is now working on characterising these difficulties (lack of machine tools, insufficient manpower, etc.) to identify the levers to be implemented to remedy those.

Thus, in its new Defence programming law (*LPM 2024-2030*), the French MoD introduced following provision on the security of supply, in its article 49<sup>16</sup>: "In order to guarantee the continuity of the execution of the missions of the armed forces and attached formations or to secure their supplies, the administrative authority, after consulting the company concerned, **may order, by decree, any company (...) to build up a minimum stock of materials, components, spare parts or strategic semi-finished products which it is required to replenish**

<sup>13</sup> Interview with a representative of the French defence industry, Sept. 2023.

<sup>14</sup> Ibid. "Point presse du ministère des Armées. Discours d'Alexandre Lahousse (S2IE)". Feb.9 2023. [Link](#).

<sup>15</sup> Christophe Plassard, *Rapport d'information sur l'économie de guerre*, Assemblée nationale, March 2023. [Link](#).

<sup>16</sup> *LOI n° 2023-703 du 1er août 2023 relative à la programmation militaire pour les années 2024 à 2030 et portant diverses dispositions intéressant la défense*, Legifrance, August 2023. [Link](#).

**continuously** as and when they are used for the needs of its activities, and order the communication of the information strictly necessary to ensure compliance with this obligation. This order, which determines the volume of the said stock (...) is reviewed once a year.” These mandatory stockpiles, which should not exceed a volume corresponding to the coverage of the needs for a period of 2 years (24 months), should be “proportionate” in the light of following criteria:

- The economic situation of each company concerned;
- The current or foreseeable requirements of the armed forces and attached units for equipment incorporating the material, component, spare part or semi-finished product in question;
- The general conditions of supply and conservation, particularly in terms of lead times, of the concerned material, component, spare or semi-finished products.

According to the LPM, the cost of building up these stockpiles must be borne by the companies which “cannot be compensated for losses relating to the costs of building up and maintaining these stockpiles”. It is however worth noting that the companies concerned by this obligation are allowed to “pool the constitution and management of these stockpiles”. In the event of non-compliance with this obligation, the administrative authority may impose a fine on a company that can reach up to “twice the value of the stocks that have not been built up, up to a limit of 5% of average annual sales”. Obviously, this provision caused a stir among defence companies, which do not intend to bear alone the additional costs of these stockpiles of initial consumables, raw materials, or critical components. One solution could be to share between the state and the industry the costs of supply, storage, and management of these stockpiles.

Another instrument, on which the French MoD is working, is the introduction of a new legal mechanism that would make it possible to require defence companies to give priority to military orders over civilian and export orders, inspired by the U.S. *Defense Priorities and Allocations System (DPAS)*, used to prioritise national defence-related contracts throughout the U.S. supply chain.<sup>17</sup> Thus, the new French Defence programming law (*LPM 2024-2030*), foresees in its Art. 49 that “to guarantee the continuity of the armed missions and secure their supplies (...) the administrative authority may order, by decree, any company with which it has concluded a defence contract (...) to perform all or part of the services covered by the contract, with priority over any contractual commitment” and that the administrative authority “may order any French company holding a contract with an international organisation or a third country to carry out all or part of the services covered by the contract

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<sup>17</sup> “Defense Priorities and Allocations System Program (DPAS), Bureau of Industry and Security”, U.S. Dept. of Commerce. [Link](#).

in priority to any contractual commitment". The text nevertheless stipulates that companies may be subject to financial compensation in case the imposed prioritisation leads to financial losses. It is interesting to note that, during a press conference given on March 26, 2024, the French Minister of Armed Forces, Sebastien Lecornu, made known that "if the pace and production deadlines were not met by the industry, the State would not hesitate to exercise its right of requisitions and to prioritise orders"<sup>18</sup>, thus putting pressure on suppliers to accelerate their production and deliver in priority defence manufacturers.

### Reducing foreign dependency to make the industry more resilient

Although foreign dependencies in the French defence sector are currently limited (the DGA estimates them at around 10% of the total production), Covid-19 and the war in Ukraine have acted as an awareness raising of the risks inherent in these dependencies, prompting the French MoD to reduce them. Thus, several levers have been identified to reduce these external dependencies, including:

- **Building up contingency stocks** (following the example of titanium, essential to the defence industry and largely imported from Russia until the war in Ukraine);
- **Diversification of supply sources**, to reduce the risks associated with single sources which can block the entire value chain;
- **Relocation of activities** in Europe or France, for particularly critical components. Around 10 relocation projects have already been identified and launched since the beginning of the war in Ukraine, while some 20 other relocation projects are currently being examined by the DGA. Most of these projects are self-funded by the industry.

One concrete example of relocation is the case of Eurenco. In 2007, the production of powder for large calibers in France was stopped and outsourced to Sweden. For the sake of security of supply, this production is currently being relocated to Bergerac, at a cost of around €60 million, including €10 million investment from the French State. This is a response to the fact that the Swedish supplier, having reached saturation point following the war in Ukraine, decided to give priority to supplying the Swedish government, to the detriment of France.<sup>19</sup> By 2025, the Eurenco Bergerac plant should be able to produce 1 200 tons of large-caliber powder for artillery shells, making it possible to manufacture up to 500 000 modular charges. Another example is the case of Aubert & Duval which has relocated the production of high-pressure turbine disks, used in helicopter engines, which were previously manufactured in the United States and forged in the UK.<sup>20</sup> While this relocation trend seems to be accelerated by

<sup>18</sup> *Renforcement industriel : armement et munitions*, Ministère des Armées, March 2024. [Link](#).

<sup>19</sup> "Déclaration de M. Sébastien Lecornu, sur la LPM et la guerre en Ukraine", Sénat, Feb. 28, 2023. [Link](#).

<sup>20</sup> "La France va relocaliser une vingtaine de productions industrielles militaires", France info, March 2023. [Link](#).

the war in Ukraine, it was in fact launched prior to February 2022. Thus, the French company Aresia, for example, has reopened a plant close to Valenciennes in 2019, with the support of the French MoD, to produce high-power bombs (from 250 kg to 1 ton) for combat aircrafts, which were previously imported from the United States.<sup>21</sup>

### Addressing human and financial resources issues

One of the major difficulties in ramping up the French defence industry, and more broadly the European defence industry, is the recruiting of qualified personnel. To deal with this issue, the French MoD has announced that it intends to focus on making the defence industry more attractive to young people, set up an industrial reserve that can be mobilised in case of production peaks, identify critical skills for which training provision is inadequate and develop the training provision needed to remedy the situation. The French MoD has also announced the creation of an "industrial reserve" with a target of "3,000 people by the end of 2024".

Finally, a non-negligible difficulty that cuts across all the above areas of action, is the one of access to finance for defence companies, which is essential for ramping up the production, recruiting staff and investing in new production tools. Therefore, the French MoD has identified guaranteeing access to finance for defence companies as a priority and intends to address the issue by measures such as the creation of a network of defence specialised banking advisers and the implementation of a fund dedicated to defence industry.<sup>22</sup> At the European level, France is pushing for several years for a revision of the mandate of the European Investment Bank (EIB), to enable investments beyond the sole dual-use projects.<sup>23</sup>

**Figure 1: Synthesis of the main "war economy" priorities announced by the French MoD**



<sup>21</sup> *Ibid.* C. Plassard, *Rapport d'information sur l'économie de guerre*, Assemblée nationale, March 2023. [Link](#).

<sup>22</sup> *Ibid.* "Économie de guerre : produire plus et plus vite, le défi !", ministère des Armées, March 2023. [Link](#).

<sup>23</sup> "Besoins de financements des entreprises du secteur de la défense", Hélène Conway-Mouret, Sénat, May 2020. [Link](#).

## THE BRITISH CASE: ASSESSMENT OF THE CHANGES IN INDUSTRIAL STRATEGIES AND POLICIES SINCE FEBRUARY 2022

### *A change in attitude towards the defence industry*

Contrary to France, the United Kingdom has not officially announced any so-called “war-economy” measures. However, the first lessons of the war in Ukraine and its impact on the defence industry seem to have been learned, as evidenced by the adoption of several documents providing increased support to the latter, such as the *Defence Supply Chain Strategy* (Nov. 2022), the *Refresh to the National Shipbuilding Strategy* (March 2022) and the *Land Industrial Strategy* (May 2022). Among these documents, the *Defence Command Paper (DCP)*, published by the British Ministry of Defence in July 2023, under the motto “Defence’s response to a more contested and volatile world”, is undoubtedly the one that offers the most comprehensive vision of this new approach. It dedicates an entire chapter to the new relationship the government intends to establish with the British defence industry, around several priorities including clearer requirement-setting, faster innovation and procurement cycles, more resilient supply chains, a stronger relationship with SMEs and a more activist approach to exports. However, although a few orders have been placed since the start of the war in Ukraine (*see below*), long-term visibility remains limited for the industry to invest sustainably and no concrete measures to support the ramp-up of the UK defence industry have been announced by the government so far.

### **Priority 1: Accelerate and simplify acquisition programmes and platform upgrades**

The main lesson learned from the war in Ukraine for the UK, as for most countries in Europe, is the need to accelerate the delivery of capabilities to its armed forces, to both replenish its stockpiles and acquire new equipment to cope with a possible high-intensity conflict. To this end, the DCP introduces the following principle “buy simpler platforms more quickly and design into them the capacity to upgrade at speed”.

The British MoD recognises the need to “radically reform” its approach to acquisition and become more agile, especially by “prioritising timely delivery over perfection”. To achieve this goal, it intends to reduce its specifications and to favour equipment that do not meet 100% of the armed forces’ needs but are available more quickly. It is interesting to note that this approach is shared with France, which also considers over-specification as one of the main obstacles to shorter delivery times (*cf. part 1*).

The ambition set by the MoD is to radically reduce “the average time from the identification of a military need to contract placement, and from contract placement to delivery to the



front-line". To reach this objective, the DCP introduces a new principle: the implementation of a maximum 5-year commitment for acquisition programmes and a maximum 3-year commitment for digital programmes.

Most recently, the MoD experienced this new approach to procurement, in the purchase of 14 *Archer* howitzers from BAE Systems Bofors, to temporarily fill the gap left by its donations of *AS90s* to Ukraine, until the delivery of new systems under the *Mobile Fires Platform (MFP)* programme, scheduled for the end of the decade. Under an "urgent operational requirement" (UOR) procedure<sup>24</sup>, the deal was negotiated in only 8 weeks, the first *Archer* was delivered 6 months later (Oct. 2023) and all 14 systems should be fully operational within the British Army in April 2024, only one year after the contract was signed. This rapid procurement was also allowed by the type of contract privileged: a Government to Government (G2G) agreement with the Swedish Defence Materiel Administration (FMV). Most recently, under the "Rapid Acquisition Project", 500 support trucks were order by the British MoD to Rheinmetall MAN Military Vehicles, following a rapid procurement process of only 7 months.<sup>25</sup>

Finally, to accelerate platform upgrades, the MoD intends to further promote open architectures. Thus, it has undertaken clarify its specific requirements, particularly in terms of integration, while allowing the market to provide innovative solutions. By declaring "Defence kite marks", the MoD hopes to enable industry to incorporate software solutions with greater agility, with the aim of adapting more efficiently to rapidly evolving threats.

*N.B. Under accelerated restricted procedures, the average time can be reduced to 60-75 calendar days, compared to an average time of 200 days for standard restricted procedures.*

## **Priority 2: Support spiral development and make capability development processes more predictable for the industry**

One of the major changes in the MoD's approach to capability development announced by the DCP, is the shift from the current dominant "domain-centric architecture" to a more "thematic approach", which should allow to integrate capability by design, across domains. This involves a reform of the current acquisition paradigm, from one "focused on specifying exact requirements" to one that "acknowledges the importance of iterative development". Thus, to better adapt to quickly evolving threats, the MoD intends to promote a "spiral development" logic, which includes developing capacities iteratively, favouring core platforms that are modular by design (i.e., the *Type 31* frigate), integrating feedbacks from end-users

<sup>24</sup> Established under the Chapter 9 of the *Defence and Security Public Contracts Regulations* (DSPCR). [Link](#).

<sup>25</sup> "500 Trucks rapidly procured for British Army operations", Ministry of Defence, Feb. 2024. [Link](#).

better and faster, as well as providing financial leeway to meet changing needs. Therefore, in the future, the MoD will attach particular importance to the possibility of updating capabilities in line with the pace of the threat environment, avoiding “getting locked into closed systems” which are an obstacle to spiral insertion.

In the same spirit, in its new strategy<sup>26</sup> (Sept. 2023), DE&S undertakes to “provide market intelligence and requirement advice to the British armed forces by closely partnering with industry and other parts of Defence, such as DSTL”, to know what equipment and technology are available in the market, and what could meet capability requirements.

Moreover, to give the British defence industry the long-term visibility it needs, the MoD undertakes to adopt a “more transparent and inclusive approach” to planning assumptions and evolving requirements. To this end, it intends to involve industry earlier in the military capability development processes and to continue to “improve visibility over the MOD’s long-term planning, to inform industry’s future plans and investment”. This new approach also implies for the MoD to forge closer links with the industry and engage much earlier in “strategic conversations with industry”, thus moving from a traditional customer-supplier relationship to a “long-term strategic alignment”. Giving the industry more visibility also involves changes in the MoD’s attitude towards procurement, avoiding the ‘feast and famine’ procurement attitude that has characterised recent decades, namely the alternance between a few larger orders - to reduce the cost per system - followed by long periods without orders, which have a negative impact on manufacturers.<sup>27</sup> Instead, long-term commitment to munitions procurement and concrete orders are needed.

### **Priority 3: Strengthen the resilience of defence industrial supply chains**

Covid and the war in Ukraine have acted as wake-up calls for the UK, highlighting the vulnerability of its supply chains and the need to strengthen their resilience. With regards to defence supply chains, the British MoD’s approach is guided by two priorities: being able to increase and rapidly replenish its stockpiles when needed in times of conflict (1) and being able to ramp-up the defence industrial production to meet the operational demand (2). This involves ensuring UK’s access to key materials, components, and critical technology. To support the strengthening of the resilience of defence supply chain, the DPC sets out several measures, including:

- Developing and exploiting the functionality of UK’s supply chain resilience tools to identify existing fragilities in supply chains and provide clearer guidance to industry.

<sup>26</sup> *DE&S new strategy*, Ministry of Defence, DE&S Sept. 2023. [Link](#).

<sup>27</sup> “Ramping Up: What Will It Take to Boost the UK’s Magazine Depth?”, RUSI, Dec. 2022. [Link](#).

- Launching an honest assessment of industrial capability, capacity, and sustainment, in cooperation with defence industrial stakeholders.
- Clarifying sovereign requirements through multi-year commitments (especially for munitions, complex weapons, and uncrewed systems) to provide a more predictable demand signal to the industry.
- Exploring ways to incentivise industry to increase productivity through investment in digitalisation, automation, and skills, and supporting the digitalisation of all acquisition phases (procurement, design, test, evaluation, manufacture, support).
- Guaranteeing the preservation of certain indigenous industrial capabilities essential to national security, by ensuring sufficient orders (MoD orders, exports, or demand from the civil sector).
- Working with international partners to improve the collective resilience of supply chains and reduce barriers to international industrial cooperation, especially through standardisation, recognition of accreditation, and aligned technical requirements.
- Exploring options to incentivise industrial partners to prioritise national security needs over commercial issues in their production planning.

Moreover, the *Integrated Review Refresh 2023*<sup>28</sup>, published in March 2023, foresees the publication of a new “Strategy on supply chains and imports,” to refresh UK's approach to delivering the *Critical Minerals Strategy*<sup>29</sup> (adopted in July 2022), as well as a new “Semiconductor Strategy”, to grow the UK semiconductors sector and improve resilience of semiconductor supply chains.

#### Priority 4: Make access to private finance easier for defence companies

Like France, the UK has identified the access to private finance for defence companies as a key factor in the defence industry's ability to ramp-up their production, preserve their sovereignty and deliver in time the equipment needed by the British armed forces. It is also a decisive criterion for attracting companies to invest in the British defence sector. Therefore, the British MoD intends to work more closely with banks, to ensure that funding markets understand “the critical need for UK suppliers to gain access to third-party revenue and financial services”, but also with private equity and venture capital funds, to attract private investment into the defence sector and avoid defence suppliers from being disadvantaged, especially because of ESG criteria. To this end, the MoD plans to work closely with HM Treasury to set out the

<sup>28</sup> *Integrated Review Refresh 2023: Responding to a more contested and volatile world*, Cabinet Office, March 2023. [Link](#).

<sup>29</sup> *Resilience for the Future: The United Kingdom's Critical Minerals Strategy*, HM Government July 2022. [Link](#).

Government's position that "there is no inherent conflict between ESG financial principles and investment in defence companies".

### Priority 5: Support more actively defence exports

In his keynote speech at DSEI 2023, in September 2023, Minister for Defence Procurement, James Cartlidge, pledged to adopt a more activist approach to defence exports.<sup>30</sup> Based on the observation that UK does not have a big enough market to ensure the needed level of supply, he considers that, in the future, exports should not be any more "a defence after-thought but written into our acquisition DNA". To support exports by British defence companies, the MoD has created a new coordination hub called the "Partnerships Office for Strategic Defence Exports", with the aim of both prioritising export opportunities and overseeing the delivery of UK's new Government to Government (G2G) offer, called the "UK Defence Partnerships." This priority, is in line with the 2021 *Defence and Security Industrial Strategy (DSIS)*, which already provided for "developing a standardized G2G commercial mechanism for defence and security sales", thus allowing a more balanced risk-sharing between government and industry.<sup>31</sup> An example of these new partnerships is the "Air Defence and Complex Weapons" Memorandum of Understanding, under which the UK established a new partnership with Poland, around the Common Anti-Air Modular Missile (CAMM), with MBDA and PGZ.

### *A focus on the replenishment of ammunition stockpiles*

One of the priorities set by the UK government to support the ramp-up of British defence companies, is to offer the industry the long-term visibility it needs to invest in its industrial tool. This implies above all multi-annual financial commitments. With this goal in mind, the British government has announced in July 2023 some £2.5 billion additional funding for 2022-2025, to replenish its weapons stockpiles. Moreover, in the 2023 budget, the MoD received an extra £1.9 billion to replace items given to Ukraine and invest in ammunition infrastructure. Thus, several orders were announced in the last months, especially under the *Next Generation Munitions Solution (NGMS)*. Announced prior to Russia's invasion of Ukraine (in 2020), the NGMS is a £2.4 billion 15-year agreement with BAE Systems for the supply of 39 different types of ammunition to the British armed forces over the 2023-2037 period, including small arms ammunition, mortars, medium-calibre gun rounds and large-calibre artillery and tank

<sup>30</sup> Defence Minister James Cartlidge DSEI 2023 Keynote Speech, Ministry of Defence, Sept. 12, 2023. [Link](#).

<sup>31</sup> *Defence and Security Industrial Strategy: A strategic approach to the UK's defence and security industrial sectors*, HM Government, March 2021. [Link](#).

shells. It replaces the previous *MASS (Munitions Acquisition, the Supply Solution)* single-source contract, launched in 2008.

For now, orders totaling £430 million have been placed under the NGMS, including:

- A £280 million order<sup>32</sup> in July 2023, including a £190 million order for 155mm artillery shells and a £90 million order for 30mm cannon rounds and 5.56mm rifle rounds.<sup>33</sup>
- A £130 million order for 155mm artillery, 30mm medium caliber rounds and 5.56mm ammunition, in September 2023.
- A £20 million order for 56mm and 7.62mm rounds, in November 2023.

According to BAE Systems, these orders should result in the opening of a new machining line and a new explosive filling facility in the UK. Following the same logic of giving the defence industry long-term visibility, the UK plans to adopt an “Ammunition Strategy”. Initially planned for late 2023, it was postponed and could be adopted in 2024.

Beyond these orders to BAE, the main contracts awarded by the British MoD since the beginning of the war in Ukraine in the field of ammunition and missiles are:

- The procurement of *Next Generation Light Anti-Tank Weapon (NLAW)* systems from Saab for around £220 million over 2023-2026.<sup>34</sup>
- The procurement of 14 *Archer* self-propelled howitzers from BAE Systems Bofors to be delivered over 2023-2024.
- The procurement from Saab of *Carl-Gustaf M4* recoilless rifles ammunition for around £4.6 million.<sup>35</sup>
- The procurement from Lockheed Martin of 3 000 *Joint Air-to-Ground Missiles (JAGM)* for around \$950 million.<sup>36</sup>

Moreover, according to the 2023 *Defence Command Paper*, the UK plans to invest more than £6.6 billion in advanced R&D in the coming years, especially around 5 critical technologies identified by the *National Science and Technology Council*: Artificial Intelligence, Engineering Biology, Future Telecommunications, Semiconductors and Quantum Technologies.

In total, according to the *DEP 2022*<sup>37</sup>, the British MoD plans to spend around £240 billion for procurement and support over the 2022-2032 period, meaning an increase of £6.2 billion over ten years compared to the *Defence Equipment Plan 2021*.

<sup>32</sup> UK Ministry of Defence invests £280m in frontline battlefield munitions, BAE Systems, July 2023. [Link](#).

<sup>33</sup> DE&S places new order with BAE Systems to increase 155mm shells stockpiles, Ministry of Defence, July 2023. [Link](#).

<sup>34</sup> Saab Receives NLAW Order from the UK, Saab, Press release, Dec. 2022. [Link](#).

<sup>35</sup> DE&S order Carl-Gustaf M4 weapons systems for British Army, DE&S, March 2023. [Link](#).

<sup>36</sup> US approves JAGM sale to UK, Janes, Oct. 2023. [Link](#).

<sup>37</sup> The Defence Equipment Plan 2022-2032, Ministry of Defence, Nov. 2022. [Link](#).

### *An ongoing transformation of the procurement system*

In the field of the reform of procurement, the MoD presented the *Defence and Security Industrial Strategy: reform of the Single Source Contract Regulations (SSCRs)*<sup>38</sup> in April 2022, with the aim of speeding up and simplifying the acquisition process, by reforming the 2014 Single Source Contract Regulations. Among others, it provides for:

- Making reporting requirements on suppliers simpler and more efficient;
- Speeding-up contract negotiation by using the statutory dispute resolution mechanisms more frequently;
- Simplifying the profit-setting process by reducing existing steps<sup>39</sup> from 6 to 4.

In this respect, the Parliament's Defence Sub-Committee launched an inquiry into the MoD equipment procurement process in January 2023, to "examine the strengths and weaknesses of DE&S, as well as its effectiveness and efficiency".<sup>40</sup> This led to the publication in July 2023 of a report by the House of Commons' Defence Committee, entitled "*It is broke — and it's time to fix it - The UK's defence procurement system*"<sup>41</sup>. According to this report "there is a real problem across UK defence procurement: the current system is indeed broken". Among major deficiencies, the report notes:

- An inadequate assessment of costs and schedules: the culture within the MoD's Defence Equipment and Support (DE&S) and the Front-Line Commands is often one of misplaced optimism when assessing project cost and schedule, thus leading to significant overruns;
- An insufficient HR support policy: as delays from the industry side are often due to a shortage of skilled workers, the MoD should put forward a plan on how it intends to help develop and foster the defence workforce over the next 10 years, including to increase the availability and uptake of apprenticeships in the defence industry;
- Exquisite procurement leading to greater cost: exquisite procurement should be avoided in favour of a 'spiral development' model;
- A too bureaucratic procurement system: as the current procurement system does not put a great emphasis on time, the MoD should make greater use of the Urgent Capability Requirements (UCR) to speed up procurement procedures;

<sup>38</sup> DSIS: reform of the Single Source Contract Regulations, Ministry of Defence, April 2022. [Link](#).

<sup>39</sup> Step 1: Baseline Profit Rate (BPR) / Step 2: Cost Risk Adjustment (CRA) / Step 3: Profit on Cost Once (POCO) / Step 4: SSRO Funding Adjustment / Step 5: Incentive Adjustment / Step 6: Capital Servicing Allowance (CSA).

<sup>40</sup> *Defence Sub-Committee launches inquiry into MOD equipment procurement process*, UK Parliament, Jan. 2023. [Link](#).

<sup>41</sup> *It is broke - and it's time to fix it. The UK's defence procurement system*, House of Commons Defence Com., July 2023. [Link](#).



- An overly lax approach towards contractors: the MOD should take a more robust attitude towards its contractors if programmes get into serious difficulty and be prepared to cancel programmes that are obviously failing;

In its response, the government defends its record, insisting that over the 2-year period to December 2022, the average time to front-line delivery was reduced by one year across the wider MoD portfolio.<sup>42</sup> While it “does not agree with the characterisation of a broken system”, the government accept the need to reform of the procurement system. Regarding the DE&S’ inadequate assessment of costs and schedules, the government points out that it “commissioned an external panel of experts to provide us with advice to improve our approach, learning from best practice in industry”. On implementing the dialogue with the defence industry, the government welcomes the introduction in 2019 of the *Defence Suppliers Forum* (DSF), as “the primary forum for strategic engagement between the MoD and industry collectively”, with around 80 companies including 30 SMEs, as well as 2 trade associations, regularly contributing to discussions at different levels. Regarding the poor attitude towards its contractors, the MoD denies any laxity, recalling that “the *Procurement Bill* has increased the ability for the MoD to exclude suppliers from bidding due to poor performance of existing contracts. Suppliers can be excluded from procurements for sufficiently serious breaches of contract, such as termination or where the Department is seeking damages, and where a supplier has not performed a contract to the MOD’s satisfaction and has failed to improve performance when given the opportunity to do so”.

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<sup>42</sup> Government response to the Committee’s Ninth report of Session 2022- 23, House of Commons, Sept. 2023. [Link](#).

## THE GERMAN CASE: ASSESSMENT OF THE CHANGES IN INDUSTRIAL STRATEGIES AND POLICIES SINCE FEBRUARY 2022

### *Towards the end of German disinterest in its defence industry?*

Traditionally little involved with its defence industry - which is seen above all as an economic player rather than a strategic one - the German government seems to have slightly reviewed its relationship with the industry since the start of the war in Ukraine. In reality, this change even predates the war in Ukraine, and dates back at least to 2015, year in which the German government adopted for the first time a list of "key technologies" (*Schlüsseltechnologien*) to be developed, procured and protected at national level.<sup>43</sup> Although no real "war economy" measures have been announced since February 2022, several recent decisions reflect a slight shift in Germany's defence industrial strategy.

First, the desire to provide defence manufacturers with greater visibility, to allow them to invest in their production tools. This goal is reflected by an increase in the German defence budget and in orders. Thus, through the implementation of the 100-billion-euro special fund, Germany's defence budget should increase from about 1.4% GDP in 2023, to 2% GDP in 2024, with planned defence spending reaching some €70 billion<sup>44</sup>. To date, about 2/3 of the special fund has been contractually bound. However, this effort needs to be put into perspective, given that the actual defence budget (without the extra special fund credits) has barely increased, and the special fund does not provide the long-term visibility expected by the industry, insofar as it is limited to a 5-year period (2022-2026).

### *Priority given to the acceleration and simplification of defence procurement*

To accompany this modernisation of the *Bundeswehr*, in parallel to defence spending increases, the German government has launched a reform of defence procurement. So far, it materialised in two ways: first, the setting up a procurement optimisation task force, to improve existing practices, and second, the implementation a new legislation to accelerate defence procurements, a project that has been in the pipeline for several years and cannot be considered as a direct consequence of the war in Ukraine.

<sup>43</sup> *Strategiepapier der Bundesregierung zur Stärkung der Sicherheits- und Verteidigungsindustrie*, Bundesregierung, 2015. [Link](#).

<sup>44</sup> About €52 billion defence budget, to which should be added about €18.2 billion from the special fund.

Thus, on July 7, 2022, the *Bundestag* adopted a law to accelerate the defence procurement: the *Bundeswehrbeschaffungs- beschleunigungsgesetz* (BwBBG).<sup>45</sup> This new law can be considered as a temporary update, whose validity is limited to the end of 2026, and which should be followed until then by a more in-depth update. One of the ideas behind this procurement reform is to make the use of Article 346 TFEU easier, to speed up the award of contracts. This reform also implies changes in procurement practices and equipment choices. Indeed, since the beginning of the war in Ukraine, the German government considers that priority should be given to the “systematic recourse to market available products or services”<sup>46</sup>, a principle that has since been repeated several times, whether in speeches by the Chancellor and the Minister of Defence, or in strategic documents. The idea behind this new approach to procurement is to avoid long and costly developments. Just as for France or the UK on specifications (*see above*) - although in a slightly different way since we are talking here about off-the-shelf procurement and not development - Germany is ready to accept a solution that does not cover all the requirements, but at least 80%, if it is available quickly.<sup>47</sup> In its latest “Defence Policy Guidelines”<sup>48</sup> (Nov. 2023), the German MoD recalls the priority given to market-available procurement, to achieve the priority goal of “quickly fully equipping the Bundeswehr”, with a derogation when it comes to national key technologies, for which new development projects are conceivable.

Other changes worth mentioning include the German government's new relationship with the defence industry. Indeed, the Russian invasion of Ukraine has accelerated the strengthening of dialogue between the German MoD and the defence industry, initiated since 2014 with the implementation of the so-called “strategic industry dialog”. Thus, several meetings with the defence industry have been organized since February 2022, with the particularity that this dialogue has been entrusted directly to the Chancellery and not to the Ministry of Defence (BMVg) or the Ministry of Economy, as it has usually been the case since 2014, illustrating the government’s desire to take direct control of the subject. Chancellor Olaf Scholz’ speech at the Munich Security Conference 2023, in which he announced a change in the way the German government will deal with its defence industry, denouncing “twenty years of disinterest in the latter”, illustrates this trend. The new focus on security of supply is also a good example of this change. Thus, Germany has for example decided to relocate the production of *Gepard* ammunition from Switzerland to Germany, after Switzerland decided to oppose its export to

<sup>45</sup> Gesetz zur Beschleunigung von Beschaffungsmaßnahmen für die Bundeswehr, Bundesgesetzblatt, July 2022. [Link](#).

<sup>46</sup> Im Interview: Gabriele Korb, Präsidentin des BAAINBw, ESUT, Oct. 2022. [Link](#).

<sup>47</sup> Stellungnahme, Öffentliche Anhörung zum „Entwurf eines Gesetzes zur Beschleunigung von Beschaffungsmaßnahmen für die Bundeswehr (BwBBG)“, Bundestag, July 2022. [Link](#).

<sup>48</sup> Verteidigungspolitischen Richtlinien, BMVg, Nov. 2023. [Link](#).

Ukraine. In the 2023 *Defence Policy Guidelines*, the MoD stresses that “a strong national defence industry is a key factor for a sustainable *Bundeswehr*” and calls on the German and European DTIB to “be significantly strengthened in terms of resilience and redundancy”. It also pledges to “increasingly embed Germany’s efforts in European cooperations” and emphasizes the importance of ensuring the “exportability of joint defence projects”. Finally, it sets the “preservation of industrial and technological capacities in Germany” as a key objective, to maintain Germany’s position as a “major industrial center”<sup>49</sup>.

### *Preserving a competitive domestic defence industry while buying off-the-shelf from third countries: the German paradox?*

However, despite announcements on the government’s intention to “build long-term cooperation with the German defence industry” and to “permanently produce Germany’s most important weapons systems”<sup>50</sup>, order intakes over the last few months reflects a different reality, thus revealing a gap between the rhetoric and the reality of this change.

Indeed, several major orders since February 2022 do not directly concern the German defence industry. This is particularly true for the following orders:

- Israeli missiles (IAI) to arm Germany’s *Heron TP* UAVs, for approx. 150 000€
- Israeli *Arrow-3* missiles systems (IAI), for approx. €3.6 billion
- Israeli *PULS* multiple rocket launchers (Elbit), to replace the *MARS II* handed over to Ukraine, for approx. €140 million
- U.S. *F-35* combat aircrafts (Lockheed), for approx. €7.5 billion
- U.S. *CH-47 Chinook* helicopters (Boeing), for approx. €7.7 billion
- U.S. *AIM-120C-8* Air-to-Air Missiles (Raytheon), for approx. €2.6 billion
- U.S. *RAM Block 2B* missiles (Raytheon), for approx. €560 million
- French 155mm artillery shells (KNDS), for approx. 280 million

Nevertheless, some major orders have also involved German manufacturers, such as:

- The implementation in Dec. 2023 of a framework contract between the BAAINBw and Diehl Defence, for the procurement of more than 1 200 *IRIS-T* missiles over the next years<sup>51</sup>
- The procurement from Rheinmetall of 50 *Puma* IFVs for €1.1 billion and of dedicated ammunition for €600 million, to replace aging *Marder* IFVs.

<sup>49</sup> “Industriestandort Deutschland”

<sup>50</sup> Bundeskanzler Scholz besucht das Unternehmen HENSOLDT, Bundesregierung, Jan. 2023. [Link](#).

<sup>51</sup> “Framework Contract for IRIS-T Guided Missiles Signed”, Diehl, press release, Dec. 2023. [Link](#).

- The procurement in May 2023 of 18 *Leopard 2A8* MBTs for about €525 million to replace *Leopard 2A6* in service.
- The procurement of 12 *PzH 2000* howitzers for about €190 million in May 2023
- The procurement in Dec. 2023, from Airbus Helicopters, of 82<sup>52</sup> *H145M* for an estimated value of €2.2 billion.

However, the aim of these acquisitions (*Puma, Leopard, PzH 2000...*) is not so much to increase the capabilities of the German armed forces as to replenish the stocks emptied by some donations to Ukraine, or to modernise old equipment.

When it comes to ammunition, Germany seems to be facing the same difficulties as its European neighbours, especially the challenge of rapidly contracting with the industry. Thus, according to German MoD Boris Pistorius, Germany intends to give "absolute priority" to the purchase of ammunition in the next years, by spending "more than €20 billion on ammunition by 2031"<sup>53</sup>. While only €1 billion has been earmarked for ammunition in the 2023 ordinary defence budget (*Einzelplan 14*), €3.5 billion are planned the purchase of ammunition in the 2024 defence budget. However, Germany considers that it is up to industry to bear the financial burden of the ramp-up of ammunition production. Thus, the construction of a new Rheinmetall ammunition plant in Unterlöss, which should be able to produce 200 000 rounds of ammunition and 1 900 tons of RDX explosives per year by 2027, was entirely funded by Rheinmetall, representing an internal investment of €300 million.<sup>54</sup>

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<sup>52</sup> 62 firm orders and 20 options

<sup>53</sup> "Boris Pistorius will mehr als 20 Milliarden Euro für Munition ausgeben", July 2023, Zeit. [Link](#).

<sup>54</sup> Press release, Rheinmetall, Feb. 12, 2024. [Link](#).

## THE ITALIAN CASE: ASSESSMENT OF THE CHANGES IN INDUSTRIAL STRATEGIES AND POLICIES SINCE FEBRUARY 2022

Unlike the other countries covered by this study, Italy does not yet seem to have really embarked on a transformation of its defence industry and is still a long way from being in "war economy" modus. However, first signs of change can be observed whether in the relationship with exports (desire to strengthen the competitiveness of Italian industry), procurement (desire to simplify and speed up procedures), or sovereignty (desire to reduce external dependencies).

### *A limited defence budget, largely dedicated to the procurement of foreign equipment*

Published in October 2023, the Italian Multi-year Defence Planning Document or DPP 2023-2025 (*Documento Programmatico Pluriennale per la Difesa*<sup>55</sup>), foresees a very limited increase in defence spending, from €25.9 in 2022 to €27.7 billion in 2023. With defence spending reaching barely 1.4% of GDP in 2023, Italy is one of NATO's poor performers and should not reach the 2% goal before 2028, four years behind the target initially set by the Italian government. As for the budget dedicated to procurement, it has increased by 12.5% - from €5.42 billion in 2022 to €6.1 billion - a figure to be put into perspective given an 6% inflation rate in 2023. According to the DPP, defence procurement spending should even decrease in 2024 to €5.9 billion, before increasing again to €6.2 billion in 2025.<sup>56</sup> However, if considering the additional funds allocated to procurement by the Ministry of Enterprises (MIMiT), defence procurement spending should reach €8.1 billion in 2024 and €8.7 billion in 2025.

Excepted major programmes such as the *GCAP*, Italy's main investments in the upcoming years will mostly concern the acquisition of foreign equipment. Alongside programmes already underway, such as the procurement of 90 *F-35* fighter aircrafts, Italy is planning to procure 21 *High Mobility Artillery Rocket Systems* (HIMARS) from the U.S, about 132 *Leopard* 2A8 tanks from Germany, about 1 000 new armored fighting vehicles<sup>57</sup>, possibly from Germany (*Lynx*) or Sweden (*CV90*).

<sup>55</sup> *Documento Programmatico Pluriennale per la Difesa 2023-2025*, Ministero della Difesa, Oct. 2023. [Link](#).

<sup>56</sup> *Op. cit.* DPP, page 111.

<sup>57</sup> Under the Army Armoured Combat System programme



The modernization of air and medium-range missile defence capabilities is also foreseen, with a dedicated €1.1 billion budget for the procurement of various systems, including the *SAMP/T* missile systems.

*A desire to make the Italian defence industry more competitive and less dependent on external suppliers*

The DPP emphasizes the need to strengthen the relationship between the State and the defence industry which is considered a “strategic asset” for the country. Therefore, among its top priorities, the DPP plans to focus defence investments on “modern, technologically advanced programmes that stimulate research and development of new technologies for use in future platforms and systems”. The Italian government also recognizes the need to develop a strategy to support its defence industry more strongly, including through direct intervention to protect national strategic assets and know-how, to preserve national autonomy as well as technological sovereignty in sectors of priority interest for the country.<sup>58</sup> However, the Italian MoD expects the industry to carry its part of the burden. Thus, it calls the industry to “respond as quickly and adequately as possible to demand” by seeking growth opportunities through new partnerships, including at the international level, with the aim of becoming more competitive on the global market. Thus, the MoD fosters the Italian industry to “develop products with high market potential and real interest for the State”.

To reduce external dependencies and preserve national sovereignty over activities of strategic importance, the government has unlocked funding under the State’s special and reserve funds (5.5 million in 2023 and €9 million in 2024)<sup>59</sup>. The aim is to modernise existing facilities and open new production lines in sectors of strategic interest for the Italian defence. Discussions are also ongoing for the ramp-up of production and opening of new State’s owned sites, especially in the field of ammunition, such as around the nitrocellulose and explosive powders factories of Fontana Liri, the big caliber projectiles, and grenades site in Baiano, and the small caliber bullets site in Capua.<sup>60</sup>

Thus, for example, in July 2022, the Italian Defence Industry Agency (*Agenzia Industrie Difesa* - AID) signed a long-term agreement with MBDA to develop the pyrotechnical infrastructures of the ammunition plant of Noceto di Parma<sup>61</sup>, while in October 2022, the AID signed an agreement with Italian company AVIO, to develop the production of the Military Propellants

<sup>58</sup> *Atto di Indirizzo per L’avvio del Ciclo Integrato di Programmazione della Performance*, Ministero della difesa, 2023. [Link](#).

<sup>59</sup> Ester Sabatino, *What future EDTIB do we want/need?, The Italian Case*, ARES, Policy paper n°84, July 2023. [Link](#).

<sup>60</sup> N.B. The Italian state still owns a few military production sites (especially for powders, explosives, and ammunition).

<sup>61</sup> *MBDA and Agenzia Industrie Difesa Sign Framework Agreement*, MBDA, Press release, July 2022. [Link](#).

Plant of Fontana Liri.<sup>62</sup> In August 2023, the AID signed another agreement with Italian company Baschieri & Pellagri, for the concession and management - through a public-private partnership - of the spherical powder production facilities of the military propellants plant of Fontana Liri.<sup>63</sup> This agreement provides for the restart of gunpowder production at the Fontana Liri facilities, which was interrupted since 2017. It follows a clear objective: reducing the dependence of strategic supplies on foreign countries. In November 2023, the AID also signed an agreement with the Italian company Alfagomma, to re-launch production on the Castellammare di Stabia plant, by building a new production line at the “Military Cord Manufacturing Plant”, active in the production of naval equipment for the Italian Navy.<sup>64</sup>

These agreements follow the same logic as the “Fund for Investments and Infrastructural Development of the Country”<sup>65</sup>, which was implemented by Italy in 2017, to ensure the financing of investments in the various critical industrial areas, including defence. Under this fund, the defence sector was guaranteed approximately €12.2 billion<sup>66</sup>, to be committed over a 16-year period, among others to develop industrial infrastructures.

### *A timid reform of procurement and export control*

The Italian MoD is currently working towards the rationalisation and simplification of the procurement process, to give the country faster and more efficient procurement tools.<sup>67</sup> With the adoption of two Decree-Law on the “strengthening of the Italian administration” in April and June 2023 (Decree-Law no. 44 and no. 75<sup>68</sup>), a process of structural and functional reorganisation of the MoD was initiated, which aims, among others, at strengthening military procurement.<sup>69</sup> However, for the moment, the scope of the reforms remains very limited.

Another lever used by Italy to increase its support to the defence industry is the reform of export controls. Thus, on August 3, 2023, the Italian Government approved the modifications to the law of July 9, 1990 (law n°185/1190<sup>70</sup>), regulating the control over arms transfer, with the aim of facilitating arms export. The idea behind this reform is to make the Italian defence industry more competitive after years of decline of Italian weapons exports. Therefore, the

<sup>62</sup> AVIO e AID firmano accordo di collaborazione industriale, AID, Oct. 2022. [Link](#).

<sup>63</sup> Agenzia Industrie Difesa e Baschieri & Pellagri firmano accordo per la produzione di polveri sferiche, AID, Aug. 2023. [Link](#).

<sup>64</sup> AID e Alfagomma finalizzano l'accordo di collaborazione per l'avvio di una nuova produzione, AID, Nov. 2023. [Link](#).

<sup>65</sup> Fondo per gli Investimenti e lo Sviluppo Infrastrutturale del Paese. [Link](#).

<sup>66</sup> €9.4 billion in the Defence share and €2.8 billion in the MIMiT share.

<sup>67</sup> Op. cit. Ester Sabatino, ARES, July 2023.

<sup>68</sup> Decreto-legge n.44, 22 aprile 2023, [Link](#) and Decreto-legge n.75, 22 giugno 2023, [Link](#).

<sup>69</sup> Op cit. DPP 2023-2025, Ministero della Difesa, Oct. 2023, p.5.

<sup>70</sup> Legge 9 luglio 1990 n. 185, Nuove norme sul controllo dell'esportazione, July 1990. [Link](#).

new text removes for example the need for a contractual negotiations authorisation for exchanges with EU countries.<sup>71</sup> To further increase the competitiveness of the Italian defence industry on the export market, the MoD is also planning a more regular use of government-to-government (G2G) agreements.<sup>72</sup>

## CONCLUSION

Whether in France, the UK, Germany or Italy, there is a growing awareness of the need to support the defence industry's ramp-up, to replenish stockpiles, deliver more weapons to Ukraine and prepare for a possible high-intensity conflict. The levers of action and priorities identified to support the industry are relevant. However, there is a clear paradox: governments seem to expect greater investment and risk-taking from industry, so that they can order more, while manufacturers expect long-term visibility from governments (orders) before investing sustainably in their industrial tool.

The implementation by governments of concrete measures in support of the industry remain timid, reflecting a double discourse between public rhetoric and action. Multi-annual orders have been slow to materialize, and contracts are just starting to be awarded.

In Germany, initiatives to strengthen the resilience of the defence industry and reduce its external dependence, are more driven by industrial stakeholders, such as Rheinmetall, than the government. In France and the UK, procurement reform has begun, and the states seems inclined to both lower their requirements and reduce administrative burdens, in exchange for cheaper and more quickly available equipment. In Italy, support measures remain limited for the time being.

However, despite the existence of similar challenges from one country to another, there seems to be no (or little) coordination between states on how to meet these challenges, even though some issues involve investments that exceed national capacities. For example, the limited production of explosive powder for artillery shells in Europe - there are only three main suppliers in Europe, in Sweden, Germany and Switzerland - is an issue that transcends national boundaries and calls for a coordinated response. The same applies to the production of certain mechanical parts and electronic components, which the industry lacks, and for which grouped orders or pooled stocks could be envisaged. The issue of civilian standards imposed on the defence industry, and certification lead times, is another challenge that needs to be tackled

<sup>71</sup> *Modifiche alla legge 9 luglio 1990 n. 185*, Camera dei deputati, Sept. 2023. [Link](#).

<sup>72</sup> *Atto di Indirizzo per L'avvio del Ciclo Integrato di Programmazione della Performance*, Ministero della difesa, 2023. [Link](#).

collectively. The new *European Defence Industrial Strategy* (EDIS) and the *European Defence Industry Programme* (EDIP) proposal for regulation, both presented on March 5, 2024, by the European Commission and the HR/VP, set ambitious goals, and propose concrete solutions to a number of these challenges. It is now up to the Member States to take action.

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+ 33 (0) 1 53 27 60 60

[contact@iris-france.org](mailto:contact@iris-france.org)

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