#116 - COMMENT

Armament Industry
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WHICH TYPE OF ARMAMENT COOPERATION DO WE WANT/NEED?

The Case of Poland

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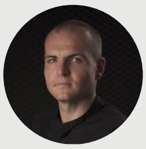

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Armament Industry European Research Group

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (IRIS), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

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ABSTRACT

From Poland's perspective, Europe needs more advanced cooperation in the joint procurement and production of armaments. Its primary goal should be to increase the production pace of the European Defence Technological and Industrial Base (EDTIB) and to reduce costs. Cooperation within the European defence industry should also enable member states to address key capability gaps in areas such as air defence, long-range strike, artillery systems, drones and anti-drone systems, ammunition, missiles, and battlefield management systems. At the same time, intensified cooperation should not lead to the suppression of competition and diversity within the EDTIB. Countries with less developed defence industrial capabilities should be given the opportunity to advance within the European division of labour; otherwise, they may be reluctant to cooperate and instead base their armaments choices on factors other than support for European producers.

Keywords: Poland | Armament cooperation | Defence Industry | EDTIB | EDF | ASAP | Polish armament agency (AU) | PGZ

The current security situation in Europe, caused by Russia's invasion of Ukraine and its aggressive policies towards the West, has placed Poland in a special position as the largest country on NATO's eastern flank and the only one bordering both Russia and Ukraine. Since joining NATO in 1999, Warsaw has been a strong advocate of maintaining transatlantic ties and has taken a sceptical view of initiatives aimed at strengthening the EU's defence capabilities. As a country planning to spend as much as 4.7% of its GDP on defence in 2025 (Cf. Oleksiejuk 2025), Poland wants a larger share of armaments contracts to be fulfilled by its domestic defence industry, which is in need of strengthening. This is partly due to the requirements of domestic policy: Poles expect the Polish economy to gain more from the necessarily high levels of defence spending. The drive to achieve self-sufficiency in certain essential areas (e.g. ammunition production) is also of importance. One of the conditions for this is closer cooperation with European partners and greater access than before to EU funds supporting the development of the defence sector. All these factors are leading to a gradual evolution of Poland's stance toward EU defence policy—especially in its industrial dimension—towards cautious support. However, this political stance must also be accompanied by a thorough reform of Poland's defence industry and defence procurement management.

OBJECTIVES OF ENHANCED COOPERATION AND THE OBSTACLES

Poland's expectations regarding enhanced European cooperation in the production and procurement of armaments are shaped by the lessons learned so far from the Russo-Ukrainian war. It has become evident that both the Polish and the European DTIBs are ill-suited to support prolonged, high-intensity military operations—even in a situation where no EU member state is directly involved (as in the case of military assistance to Ukraine). The main limitations concern production speed and costs (Cf. Bellais, Maślanka, Schütz 2025).

It seems that existing programs (especially ASAP) have delivered only partial results in terms of accelerating production[1], and have not necessarily translated into lower costs (as evidenced by the fact that subsidies are granted to cover additional expenses related to cooperation—

[1] Commissioner for Defence Andrius Kubilius maintains that the production capacity for 155 mm ammunition will increase to 2 million rounds per year by the end of 2025 (up from 300,000 in 2022). A Financial Times report also confirms that manufacturing plants supported by the ASAP programme have made greater investments than those that did not receive funding. However, it should be noted that some of these investments had been planned (or even initiated) before the funds were granted. (Cf. Dubois 2025) Although Polish plants received only marginal support from ASAP (€2 million for the company DEZAMET), ongoing investments worth around €600 million are expected to boost production capacity from about 30,000 rounds per year in 2022 to 300,000 per year by 2028 (Cf. Erling, Wlodarczak-Semczuk 2025).

implying that cooperation will be more expensive than its absence)[2]. Enhanced cooperation could lead to cost reductions if it results in agreements on issues not directly related to defence industry support policy, such as energy prices, labour costs, and access to raw materials and components. Poland is exposed to a significant increase in energy prices in the coming years, especially after the implementation of the ETS2 package. The resulting economic challenges will also affect the defence industry. Other Central European countries, including the Czech Republic — which has substantial DTIB potential — face a similar situation. Given the rollback of climate policy by the Trump administration, the rather lenient approach taken by major economies of the Global South (such as India), and the challenges arising from the Russian–Ukrainian war, the EU should make a profound adjustment to its climate policy. This should include a more flexible approach toward the continued use of coal in energy production, as the Union has ample reserves of this resource within its own territory. Investments in nuclear energy should also receive strong support from the EU.

Another important goal of cooperation is reducing dependence on third countries in key fields such as strategic enablers (air transport, satellite reconnaissance) and selected capabilities (air defence, long-range strike, artillery systems, drones and anti-drone systems, ammunition and missiles, and battlefield management systems). From the perspective of Poland and the entire eastern flank it would be desirable for European states to step up the implementation of their commitments under NATO capability plans by closing capability gaps, reduce their reliance on the United States in critical areas, and enhance their ability to more independently deter Russia through conventional means (Cf. Gotkowska, Maślanka 2025). Industrial cooperation can play a major role here. The question is whether member states and companies—two entities that do not always play on the same team—will be able to trust each other enough to: 1) carry out these initiatives jointly, and 2) pursue them at least partly under the EU flag and with EU support.

Although Poland in the past expressed interest in taking part in major European projects (such as the joint MGCS tank programme), it did not receive a favourable response from its Western partners - . Although Poland could potentially be the largest purchaser of a tank developed under the MGCS project, Germany and France decided that there were so many points of contention between them that involving Poland could make things even more troublesome.

[2] The price of 155 mm ammunition is, unsurprisingly, governed by supply and demand. While it was about $2,000 (Cf. Skove 2023) per round before Russia's full-scale invasion of Ukraine, prices subsequently rose as high as $8,000 per round (Cf. Skove 2023), settling at about $3,000–$5,000 per round in 2025 (Cf. Myroniuk, Yegoshyna 2025). A sustained increase in production driven by investment and demand could push prices down in the future; even so, they will remain significantly higher than the price of 152 mm ammunition in Russia ($500-1000, Cf. Porter 2024).

Some French commentators, for example, suggested that Germany may pursue the construction of a heavy tank that would be difficult to transport by air (Vauban 2021). Given the long-term nature of such programmes and the rapidly deteriorating security environment, Warsaw, like many EU members, choose off-the-shelf purchases from non-European producers, as they consider them to be linked with U.S. allied guarantees (the F-35 aircraft is a case in point) or simply quicker to implement (K2 tanks from South Korea).

The Trump presidency somewhat improved the climate for joint European projects, and in Warsaw there is strong political appetite to participate in initiatives that could significantly strengthen deterrence capabilities (for example, the long-range missile programme ELSA). However, it is difficult to predict how such cooperation would work in practice at the level of defence manufacturers. In some areas, there is concern about sharing industrial secrets (e.g. drones), while in others the Polish industry would have difficulty proposing its own contribution (e.g. long strikes). There is also the issue of the required own financial input in projects supported by EDF or ASAP, for many Polish companies it seems too high.

DEVELOPMENTS IN TERMS OF COOPERATION ON ARMAMENTS/ JOINT PROCUREMENT

Poland

Changes enabling the Polish defence industry to achieve greater cooperation and integration with its European counterparts should be multidimensional and built upon three pillars. First, it would be desirable if the Polish Armament Agency (AU) undergo both organizational and competency-based expansion. Second, it would be beneficial if defence companies gain broader access to capital resources and financing of research and development projects will be increased. In 2025 the Polish Ministry of National Defence will allocate approximately 1.355 billion PLN (319.4 million euro), which constitutes approximately 1.09% of the total planned defence expenditure. Finally, at least partial consolidation and optimization of entities within the state-owned Polish Armaments Group (PGZ) would be desirable. These measures should proceed in parallel, reinforcing one another in a feedback loop to generate a synergistic effect.

The Armament Agency (AU), responsible for acquiring arms and military equipment for the Polish Armed Forces, is currently overstretched. Between 2021 and 2025, it has overseen the implementation of more than 400 contracts while simultaneously working on the finalization of over 130 additional programs. Yet, the agency employs only 557 military and civilian staff (cf. Kuptel 2025). Moreover, its mandate is limited exclusively to procurement for the Polish

Armed Forces. Unlike France's *Direction générale de l'armement* (DGA), the AU lacks the competencies and prerogatives to support exports or implement industrial cooperation with European partners. As a result, it safeguards only the needs of the armed forces, neglecting the broader interests of the domestic defense industry. Topic of measures to strengthen the AU is present in expert and political debate, but no steps have yet been officially announced.

Polish defence firms—both private and, in particular, those within PGZ—suffer from chronic liquidity shortages after nearly three decades of relatively low procurement volumes. The culmination of this was 2019, when PGZ recorded a net loss of 611 mln PLN (144 million euro). This has deprived them of the ability to modernize facilities or finance R&D from their own resources. Consequently, they require substantial recapitalization through grants, state-guaranteed credit lines, and EU financial mechanisms. While steps in this direction have already been taken (MAP 2025), implementation remains slow and investment levels insufficient.

The organizational structure of PGZ further compounds these challenges. The consortium unites 67 companies and holds shares in 27 others, some of which compete against one another. Such decentralization leads to weak synergies, protracted decision-making, and fragmented capital. Consolidation of Poland's state-owned defense companies began in 2013 with the creation of PGZ, yet the process has stalled in recent years. PGZ does include a handful of "champions"—modern companies with strong cooperation networks, their own financial resources, and solid liquidity. However, their potential is constrained by the Group's capital structure. In 2024, PGZ as a whole generated revenue of almost 14 billion PLN (3,3 mld euro), but only 2 billion PLN (470 million euro) came from exports and a net profit was only 1.68 billion PLN (390 mln euro). It is worth noting that the main source of export income for the Group comes from the contract for 54 Krab self-propelled howitzers for Ukraine, while the rest is generated by the sale of Piorun MANPADS to various countries. A partial consolidation and optimization of the group's entities would therefore be a crucial step toward addressing these systemic inefficiencies. Therefore, a more efficient and capitalized PGZ will be a significantly better partner for cooperation with other defense industries, allowing it to establish advanced cooperation more easily and economically.

EU policies

EU support programmes could also better respond to the needs of defence companies from member states such as Poland. First, as a potentially frontline country on the eastern flank, Poland spends record-high amounts on defence relative to its GDP (planned 4.7% in 2025). It should be in the interest of the EDTIB to redirect as much of this funding as possible towards the purchase of European weaponry. It would therefore be reasonable to create additional preferences in applying for EU funds for companies from member states that spend the most on defence. A high level of expenditure is, after all, also a signal of increased demand. This demand can be met either by domestic companies or by third-country markets. Since the European Commission has recognised that supporting the EDTIB is in the interest of the entire EU, it would naturally make sense to reward those who are prepared to spend the most and are able to attract partners for these purchases, thereby continuing to generate demand at home. This would create a natural community of interest between major arms producers in the EU that are increasing their military spending (France, Germany, Sweden) and the countries investing in defence due to the Russian threat (Poland, Finland, Romania, Czechia). The introduction of such preferences could also further encourage those member states most reluctant to increase military spending, but which possess significant DTIB potential themselves (e.g. Italy, Spain).

Another important element in strengthening political consensus within the EU on cooperation in the defence industry could be measures aimed at fostering a more inclusive model of the EDTIB (Cf. Maślanka 2025). Polish companies and research centres should show greater interest in participating in EDF projects, as these provide opportunities to level the technological playing field. So far Polish companies and research centers participate in few dozen EDF programs, but they serve as coordinators in only two of them (the EU subsidy for them totals approximately 9 million euros) , while information about the actual financial flows to Polish entities is not publicly available. Polish equipment was also omitted under the EDIRPA program (even though Poland, Lithuania, Estonia, and Norway applied for funding for the joint purchase of Piorun air-defence manpads, while under ASAP the Polish ammunition manufacturer Dezamet received a symbolic 2 million euros.

It would also be beneficial for large projects aimed at filling critical capability gaps, such as the European Long-Range Strike Approach (ELSA) project, to be implemented under the EU flag (eg. as a European Project of Common Interest). Under such a scheme, the Polish defence industry could receive a number of technology transfers in exchange for the Polish Armed Forces being a major purchaser of the systems produced. However, the financial incentive under the EDIP program may prove to be too modest, and countries may prefer to carry out large projects outside the EU and its control systemnot least because ELSA should be launched well before the start of the next Multiannual Financial Framework (MFF) in which there may be more funds available for joint defense projects. The European Commission could also encourage Member States to develop a system of civic participation in the growth of their defence industries, for example through the issuance of defence bonds or even by directing part of pension savings towards investment in the defence sector. Such a policy could be partly co-financed with EU funds. It would also strengthen public oversight of defence industrial policy. Of the proposals put forward so far by the European Commission, the most promising appears to be the strategy for development of a Savings and Investment Union, which would pave the way for a broader mobilisation of private savings for defence purposes. Ultimately, however, the market will decide, and a key criterion will be the assurance that investments in defence are not a reaction to a temporary sense of threat, but a long-term strategic choice. The involvement of the European Investment Bank in financing certain defence-oriented projects sends a positive political signal. The question is whether it might be purposeful for willing Member States to establish a dedicated bank to fund strictly defence-related ventures, free from the constraints of EU treaty rules.

Member States should also be more closely involved in shaping European industrial policy towards the defence sector—already at the stage of drafting regulatory proposals. Without questioning the Commission's monopoly on legislative initiatives within the Union, it would nevertheless be in its interest to establish consultation mechanisms that are more transparent than those currently in place, encompassing all Member State capitals. The Council should also retain the final say on the allocation of financial support, as was negotiated in the case of SAFE (Cf. Kozioł 2025).

EXPECTATIONS REGARDING THE STRUCTURING AND EVOLUTION OF THE EDTIB

In Poland – a country with decades of experience of an inefficient centrally planned economy – there exists a strong conviction about the necessity of preserving the market foundations of the economy, including free competition. This forces producers to compete on quality and to keep prices at a level acceptable to customers. Although the defence industry is marked by numerous particularities (its clients are exclusively states, the preparation of infrastructure and the supply of raw materials and components involve the state, and many companies are state-owned), this sector too is subject to the laws of the market.

EU support should therefore reward cooperation in several key areas where this is necessary to achieve the desired effect (long strikes, space-based capabilities, drones, air defence, the use of artificial intelligence, quantum computing). Poland also views with suspicion the "best athlete" approach promoted by the largest European arms producers (Cf. Tidey 2025), regarding it as concealing protectionist and monopolistic ambitions. The Union and the member states should be able to intervene wherever objective causes hinder the development of production, but they should avoid solutions that would openly favour a particular manufacturer (or manufacturers from particular countries) at the expense of others.

In the current security situation, the legitimate drive towards greater strategic independence of Europe's defence industry and military capabilities from third-country markets and states should not turn into a utopian pursuit of autarky. On the contrary, we should seek to develop a model of the EDTIB that attracts investment and technologies from friendly third countries by creating a system of tax reliefs and financial incentives in exchange for carrying out activities within the EU and producing goods not subject to third-country export restrictions. The EU and its Member States could also support European defence-sector companies in attracting highly skilled personnel to the EU. Such a policy would broaden competition in Europe and could, in turn, reduce the comfort enjoyed by manufacturers in setting prices. There is, however, concern that grants and preferential loans—the present foundation of EU support programmes for the defence industry—will not suffice to draw in foreign investment and technology. What is needed is reflection on how to enhance the EU's overall attractiveness as a destination for foreign investment, which must also take into account the costs of labour and energy. Choices made by the Union in climate policy also have a significant bearing on production profitability and investment appeal. In the case of defence investments, due to mistakes of previous decades, such as their classification by the banking sector and EU regulations as high-risk, Europe will still need to provide additional reassurance that it actually welcomes their presence. There is hope that partial deregulation under the Defence Omnibus will relieve the European defence industry of certain burdens.

The Union's policy of support for the EDTIB – if it is to be lasting and sustainable – must enjoy the relative consensus of the Member States and their societies. An important element in building such support is a well-founded sense that increased investment in defence – justified by the international situation – contributes to economic growth and the re-industrialisation of the Union as a whole. Hence the importance – particularly audible in Poland – of the call for the even development of the EDTIB across the entire territory of the Union. It is desirable to strive for a model in which Member States investing in defence find a place within the European division of labour that is satisfactory to them. Paradoxically, the path towards such an outcome lies in maintaining competitiveness and diversity within the EDTIB, limiting non-repayable grants to research and development programmes (such as the EDF), while in other cases making use of low-interest loans: these provide greater assurance that financing is sought by producers whose output is matched by demand. A few spectacular failures in applications that were otherwise well-prepared (for example, the highly regarded Piorun antiaircraft man-portable air-defence system in EDIRPA: Poland filed its application with Norway and Baltic countries) have meant that trust in the criteria for allocating these funds is not very high in Warsaw. Against this backdrop, SAFE appears to represent a progress for Poland. Primarily because it includes loans (which reduces the queue for funding), but also because, for the first time, the allocation of loans among Member States indicates that threat assessments and the scale of defence investments are taken into account. SAFE is less industrial, more geopolitical which Poland welcomes.

CONCLUSIONS

In Poland, there is a significantly stronger than ever appetite for supporting deeper defence cooperation within the EU, provided that it brings us closer to enhancing our capacity to deter Russian aggression. To this end, the EDTIB must deliver faster, more efficiently, and at lower cost. Equally important for Poland are the terms on which its DTIB will cooperate with European partners – and whether it will be allowed to take part at all in the implementation of key projects (for instance in the fields of deep strike or drone and anti-drone systems). For deeper cooperation between the Polish defence industry and the EDTIB to gain political backing, it must adopt a more inclusive character than has been the case so far and avoid becoming geared towards monopolisation of the defence market. At the same time, Polish institutions themselves, as well as the arms industry, should undergo significant transformations and receive personal and financial support.

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