



OPPORTUNITY KNOCKS

Chris Morton identifies the key actions from the new EU Readiness 2030 report to help manufacturers leverage this generational opportunity

Larger-scale combat operations taking place across Continental Europe have pushed nations to prioritise defence strategies and look at more focused investments to match pressing demand for regeneration and revitalisation of the industrial base. At the 2025 NATO Summit, democratic members agreed to widen the investment in defence targets to 5 percent of GDP. Military budgets are rising sharpest since the Cold War, with expanded funds targeted for training and acquisitions and overall realignment in force modernisation.

The multitude of manufacturers that make up the European Defence Industrial Base (DIB) now has a window of opportunity to seize this initiative and refresh their processes to meet the rise in transnational combat and defence operations. It is therefore vital to capitalise on budget increases, leverage this capital to seek new growth partnerships and modernise underlying digital tools as more countries reposition their military strategies to meet NATO goals and react to this shifting global climate.

Recent conflict and military doctrine have highlighted insufficient defence investments, but things are

The defence manufacturing industry across Europe is facing a major labour and skill shortage due to under investment in new defence programmes

changing. The UK Minister of Defence Procurement, Maria Eagle, states: “The Government is firmly committed to increasing defence spending to reach 2.6 percent of GDP by 2027 and has set an ambition to reach 3 percent by 2030” while the German Minister of Defence additionally addressed the need for expanding the budget for defence investments beyond just an inadequate 3 percent GDP that could instead lead to a raise in spendings of 3.5 percent by 2029. The more focused talk around increased defence spending, including NATO targets, suggests there is a significant opportunity facing the manufacturers that make up the European Defence Industrial Base over the next five years.

The war in Ukraine, combined with a more amenable European polity, has created an environment that has spurred EU member states to redirect domestic wealth to boost defence capabilities. The war has also provided a testing ground for nations to assess their newly developed capabilities. There have already been significant changes. German defence conglomerate Rheinmetall recently surpassed top carmaker Volkswagen in terms of market value, driven by increased investor capital in the industry. Türkiye is accelerating its manufacturing advancements across product categories; domestic spending is up and opportunities to develop, test and employ these capabilities in combat are many.

The EU multiannual financial framework (MFF) 2012-2027 has long included funding for cooperation on defence-related activities, but the EU Commission has now unveiled its plans for European Defence, known as ‘Readiness 2030’. This initiative provides a financial lever for EU Member States to drive an investment surge for defence capabilities. Readiness 2030 includes a new financial instrument called SAFE (Security Action for Europe) to support investment in domestic European defence manufacturing that includes incentives for securing domestic supply chains.

As the immediate demand for enhanced defence capabilities grows to deter future conflict, domestic European defence manufacturers must prepare now for this surge. There is little time to wait for traditional business cycles. One way to short-circuit organic growth to support increased demand is through acquisitions and partnerships with well-established adjacent players in the market. This is already happening with traditional giants such as General Dynamics European Land Systems partnering with Rheinmetall to provide the German Army with 256 Piranha 5 vehicles.

Non-traditional defence manufacturers are also entering the market, shifting their production capacity from strictly commercial to a mix of commercial and defence-related products. ICEYE Ltd, a Finnish microsatellite manufacturer, builds synthetic-aperture radar used to monitor pack ice. But now its technology is used for battlefield real-time imaging. There are many more examples like ICEYE Ltd, but this type of reindustrialisation will only accelerate.

Even so, increasing opportunity and demand may not be sufficient to force an immediate shift. In the United States, despite the urgency of the COVID-19 pandemic, the federal government stepped in and invoked the Defence Production Act in conjunction with emergency contracts to spur manufacturers to

prioritise mechanical ventilators over the goods they normally produced. While European nations have not yet matched this scalable action, governments could certainly employ such strategies if the industrial base finds itself unable to be as responsive as it should be or if the war in Ukraine grows hotter – or gets closer to home.

At the end of the day, individual or mid-sized manufacturers cannot force governmental action and may not be able to leverage partnerships or acquisitions. But all is not lost. Companies that lack scale or influence (and frankly, even the ones that do) should focus on three areas: leveraging governmental and investor capital, pursuing talent to exploit the opportunity and employing technology for agility and scale.

MANUFACTURING IN THE DEFENCE SECTOR IS FACING A REVOLUTIONARY PERIOD OF OPPORTUNITY

To meet production goals, manufacturers should first leverage funding incentives before the geopolitical truth changes and public sentiment wanes. While these programmes are generational opportunities, it does not mean the money will last for generations. In addition to the obvious capital benefits for manufacturers leveraging these programmes, they also encourage cross-border partnerships. The European Defence Fund, which encourages cooperation between EU defence companies, allocates £5.3-billion of its total fund for collaborative capability development projects. NATO-friendly cooperation is simply a necessity for smaller individual domestic manufacturing bases of EU nations because justifying homegrown manufactured assets is frequently impractical. When added to the recent investor frenzy in the market, the defence industry finds itself with a truly unique opportunity.

Next, the defence manufacturing industry across Europe is facing a major labour and skill shortage due to under investment in new defence programmes, a lack of appeal to new workers, and an ageing workforce crisis. To combat this challenge, organisations must utilise increased investment to upskill their talent, so they can build the capabilities they need to match the expanded work volume. Burgeoning demand for skilled manufacturing talent in the defence space is frequently transferable to the commercial sector – a haven for talent should the growth in the DIB slow.

Lastly, the digital world has a vast toolkit of software applications to help solve logistical and process issues. Modern enterprise business solutions, the proliferation of AI applications and connected workforce solutions help companies overcome skilled labour shortages. Legacy software applications were simply not architected for today’s speed of innovation, demand for scalability or disruptive technological change. As such, defence companies would do well to leverage some of the increased availability of capital to invest in disruptive