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ReArm Europe: Financing the Future of European Defence and Security



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ReArm Europe: Financing the Future of European Defence and Security

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Abstract

The ReArm project is the European Commission's strategic response to the urgent need for a more independent Europe. Mobilising around €800 billion, this initiative aims to enhance Europe's strategic autonomy, possibly empowering Europe to become a self-sufficient geopolitical actor. ReArm Europe aims to utilise five financial mechanisms to allow for more defence spending: national public funding, joint debt issuance, stepping up of the EU budget on defence, industrial cooperation and national public funding. Nonetheless, political opposition from fiscally conservative Member states is expected, and unspecified loan repayment mechanisms without a stronger European Defence Agency or industrial base pose significant challenges to the delivery of the project. Mario Draghi's recommendations were considered to analyse the Commission's initiatives, providing an analysis of the project. In this case, the European Council should enable Europe to have a structural reform on the decision-making and ensure harmonisation and standardisation within Europe. Such a supranational leap would be supported by the vast majority of European citizens, as evidenced by the Eurobarometer.^a Yet European national leaders may oppose such desires for fear of sovereignty loss. Therefore, the European Union should clarify how these loans will be repaid and how to attain further European defence industrial integration. Moreover, the European Council should consider pursuing treaty reforms to enhance decision-making efficiency, ensuring Europe can act rapidly and decisively. The EU should focus on developing European strategic enablers and allow for European defence cooperation at both industrial and military levels, as this is crucial to achieving true defence autonomy and a more resilient European defence framework.

^aEuropean Commission. 2024. "Eurobarometer." Europa.eu
<https://europa.eu/eurobarometer/surveys/detail/3216>

The ReArm project

As geopolitical instability grows and decades of underinvestment weaken Europe's defence capabilities, the need for strategic autonomy has never been more urgent. Therefore, the European Commission has launched the ReArm project, an initiative to reinforce Europe's Defence posture. Presumably, €800 billion in funds will be directed toward strengthening its Defence. The project aims to reinforce and consolidate European military readiness and reduce external dependencies, as confirmed by General Mikhail Kostarakos, the Chairman of the European Union Military Committee.¹ However, political opposition and financial constraints seem to hinder Europe's true capacity to realise its Defence ambitions, leaving dangerous gaps in its security framework. This project seeks to ensure Europe's defence autonomy, reducing re-

liance on the US and strengthening its role as a geopolitical actor. The objective of the abovementioned project is to allow Europe to assert itself as a reliable and autonomous world player.² Thus, attaining the European Strategic Autonomy, which implies "*the ability of Europe to make its own decisions, and to have the necessary means, capacity and capabilities [...] that it can properly function on its own when needed.*"³ Without tangible progress in the European defence investment and capability development, strategic autonomy risks remaining just a rhetorical aspiration rather than a functional reality. The ReArm project represents a pivotal opportunity to close this gap and define Europe's role in the emerging global order, by establishing a true European defence industrial base.

Financial Mechanisms

ReArm aims to mobilise such massive funds through five distinct mechanisms. The first mechanism aims to allow Member States to increase their public expenditure on defence. This is done by activating the escape clause of the Stability and Growth Pact, which temporarily allows Member States to raise their defence spending without automatically

causing the Excessive Deficit.⁴ To clarify, the Stability and Growth Pact is the "*set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate fiscal policies*"⁵, while the Excessive Deficit Procedure is the European mechanism aiming to ensure all Member States have low government debt or reduce high debt to

¹ European Defence Agency (EDA). n.d. "Military Capabilities - Europe Still Lacks Strategic Enablers." EDA Webzine, Issue 11. <https://eda.europa.eu/webzine/issue11/military-capabilities-europe-still-lacks-strategic-enablers>

² European Commission. 2025. Press Statement by President von Der Leyen on the Defence Package. https://ec.europa.eu/commission/presscorner/detail/sv/statement_25_673

³ Zandee, Dick, Bob Deen, Kimberley Kruijver, and Adája Stoetman. European Strategic Autonomy in Security and Defence: Now the Going Gets Tough, It's Time to Get Going. The Hague: Clingendael Institute, December 2020. <https://www.clingendael.org/sites/default/files/.pdf>

⁴ European Commission. 2025. Press Statement by President von Der Leyen on the Defence Package. https://ec.europa.eu/commission/presscorner/detail/sv/statement_25_673

⁵ European Commission. 2024. Stability and Growth Pact. https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact_en

sustainable levels.⁶ By activating the Escape Clause of the Stability Growth Pact, Member States aim to increase defence spending without triggering the Excessive Deficit Procedure, but this is just a temporary exemption rather than a long-term strategy. Secondly, the ReArm plan has the initiative of loaning €150 billion, which will be granted to Member States for defence investment to spend together, thus reducing fragmentation, boosting interoperability and reducing costs while enhancing the European Defence industrial base.⁷ Thirdly, the €800 billion

plan will allow the European budget to be focused more on defence-related investments, hence the Commission's willingness to advance new possibilities and incentives for Member States to step up their defence spending, and here, there might be the possibility of utilising the cohesion policy programme.⁸ Lastly, private capital is considered crucial within the ReArm initiatives to ensure the Savings and Investment Union and the European Investment Bank are utilised to allow a step-up in the Member States' defence capabilities.

Analysis of the ReArm project.

The most relevant proposal here is, for sure, the European joint debt. However, this is limited in scope as there is no political willingness by some Member States to advance their stark opposition, notably the Netherlands and Germany, with whom the expected new Chancellor will do everything he can to prevent new EU Debt.⁹ Although the latter has reduced Germany's historic opposition to it, the Netherlands, Switzerland, Austria, and Denmark will have to be convinced, as

they are reticent to further European joint debt.¹⁰ Despite this, Merz is trying to secure a €500 billion special fund to boost defence spending and infrastructure¹¹ and to loosen Germany's debt brake, which will have to convince the Greens, who are opposing the abovementioned proposals.¹² Still, a senior EU diplomat stated that the €150 billion for defence "is not just borrowing," but rather it will in part be granted by the EU budget¹³ in fact, the Commission would just borrow money in

⁶ European Council. 2024. Excessive Deficit Procedure. <https://www.consilium.europa.eu/en/policies/excessive-deficit-procedure/>

⁷ European Commission. 2025. Press Statement by President von Der Leyen on the Defence Package. https://ec.europa.eu/commission/presscorner/detail/sv/statement_25_673

⁸ *Ibidem*

⁹ Packroff, Jonathan, and Nicoletta Ionta. 2024. "German CDU Leader Pledges to Do 'Everything I Can' to Prevent New EU Debt." Euractiv, September 11, 2024. <https://www.euractiv.com/section/economy-jobs/news/>

¹⁰ ISPI. 2025. ReArm Europe: Ambizione O Illusione? March 7, 2025. <https://www.ispionline.it/it/pubblicazione/rearm-europe-ambizione-o-illusione-202521>

¹¹ Ripper, Kirsten. 2025. "Merz Secures Billion-Euro Deal for German Military and Infrastructure." Euronews, March 4, 2025. <https://www.euronews.com/my-europe/2025/03/04/>

¹² Nöstlinger, Nette, Johanna Treeck, and Chris Lunday. 2025. "Germany's Merz Has 2 Weeks to Deliver Historic Spending Revolution." POLITICO, March 7, 2025. <https://www.politico.eu/article/germany-friedrich-merz-defense-spending-debt-brake/>

¹³ Pugnet, Aurélie. 2025. "Von Der Leyen's 'Rearm Europe' Plan and the Holes in It." Euractiv, March 5, 2025. <https://www.euractiv.com/section/defence/news/von-der-leyens-rearm-europe-plan-and-the-holes-in-it/>

¹⁴ *ibidem*

capital markets and then loan it to Member States under the condition they would procure weapons in Europe.¹⁴ Ultimately, such a mechanism would not only preserve the strict European budgetary pru-

dence but also strengthen European industry, as it ensures that European funds remain within the European internal market rather than flowing to non-EU countries.

Unresolved Challenges and Recommendations

Furthermore, there is no mention within the package of how these loans will be paid, and it should be fundamental to have a clear understanding of the repayment; otherwise, Europe is just procrastinating its problems and would add fire to the already detrimental situation in which Europe finds itself. Moreover, it will be crucial to understand which military capabilities will receive preferences from the EU and how the decision will be made. In this case, European defence industries must collaborate to ensure efficiency and reduce duplication. The example provided by Leonardo and Rheinmetall's proposal to establish a joint venture for the production of tanks should be considered for the future of the European defence industry.¹⁵ Another important question that may arise is the role of strategic enablers. Will strategic enablers be bought from the US, or will there be investments within the European defence industrial base to ensure Europe's independence from any foreign countries? The importance of having strategic enablers is that they would allow Europe to be completely independent, as was confirmed by General Kostarakos.¹⁶ It should be crucial for Europe to focus on autonomy,

and this may come at the cost of possible duplication of "*efforts and of capabilities*", which will allow Europe to have a stronger role in complementing NATO.¹⁷ Hence, one might argue that it would be inefficient to allocate such an enormous amount of money to be spent in the US without investing in Europe's domestic military production. This would render the EU truly independent from the US, as the strategic enablers of NATO are held in the vast majority by the US, and continuing to support the hegemony of the US in NATO would imply that Europe's interests will always come second. Notably considering the new strategic interests of the US towards the Indo-Pacific.¹⁸ Moreover, concerning the loans, how will they be distributed between EU Member States and Ukraine? These are all unknown queries that might receive clarification shortly. This plan seems to be a long-term approach to European defence. However, many studies provide that the escape clause is not the best procedure, as it requires an ad hoc basis with a limited timeframe of exemption from fiscal rules,¹⁹ not to mention that across Europe, many relevant Member States have stark limitations to their budget manoeu-

¹⁵Rheinmetall. 2024. "Leonardo and Rheinmetall Establish Joint Venture." Rheinmetall News, October 15, 2024. <https://www.rheinmetall.com/en/media/news-watch/news/2024/10/2024-10-15>

¹⁶European Defence Agency (EDA). n.d. "Military Capabilities - Europe Still Lacks Strategic Enablers." EDA Webzine, Issue 11. <https://eda.europa.eu/webzine/issue11/military-capabilities-europe-still-lacks-strategic-enablers>

¹⁷*ibidem*

¹⁸U.S. Department of Defense. 2025. "Opening Remarks by Secretary of Defense Pete Hegseth at Ukraine Defense Contact." <https://www.defense.gov/News/Speeches/Speech/Article/4064113/>

¹⁹Dermine, Paul. 2025. "Funding Europe's Defence." March. <https://doi.org/10.59704/4c71fd729acff01f>

vability, for instance, Italy and France are the best examples, while for others Member States there are legal constraints which impedes the increase in Defence spending, as it is the case for Germany.²⁰ Furthermore, despite Trump's unpredictability, the US and EU remain fundamental strategic allies, and their partnership is unlikely to be disrupted. Especially when considering that a more independent European Union would benefit the US.²¹ Nonetheless, Europe should aim to improve its strategic position, making sure to become independent from other countries, which, even if they are allies, does not imply that their strategic inter-

ests always align. Therefore, investing in the intra-European defence industry will allow Europe to become independent and even be in a position to create new jobs.²² It will be crucial to evaluate how European leaders decide, as some would push for further European defence spending, while others stress the urgent need to buy now, thus buying from foreign countries.²³ Yet, one may imagine that the European Council has supported the Commission in such a proposal. However, at the 6th of March Special European Council, the leaders of the European Member States were not able to reach a unanimous decision on the "buy-European" approach.²⁴

Draghi and the ReArm project

Considering the remarkable report by Draghi, one may thus ponder if the ReArm project aligns with the expectations and requirements set by the former President of the ECB. By mobilising financial possibilities to aim to strengthen European security, which would lead to a more independent geopolitical actor, thus meeting the request for strategic autonomy, it can be argued that the Commission's new project aligns with Draghi's report on competitiveness. However, achieving a stronger European Defence is not as straightforward as one may imagine. For instance, the political willingness to ensure bolder European defence

initiatives that would allow the EU to procure jointly or to standardise military doctrines is missing. Nevertheless, criticising the European Union for such misdelivery would be wrong. Quoting Mario Draghi, "*The EU does not have a centralised authority entrusted with the appropriate structure to manage industrial defence and security initiatives, to provide funding on a more integrated basis, or with a clear political mandate to act in this domain.*"²⁵ Therefore, one shall complain against the leader of each Member State who opposed further European integration, thus not respecting Europeans' will

²⁰ *ibidem*

²¹ Retter, Lucia et al., European Strategic Autonomy in Defence: Transatlantic Visions and Implications for NATO, US, and EU Relations (RAND Corporation, 2021), https://www.rand.org/pubs/research_reports/RRA1319-1.html

²² European Commission. 2025. Speech by President von Der Leyen at the European Parliament Plenary Joint Debate on European Council Meetings and European Security. https://ec.europa.eu/commission/presscorner/detail/en/speech_25_739

²³ Pugnet, Aurélie. 2025. "Von Der Leyen's 'Rearm Europe' Plan and the Holes in It." Euractiv, March 5, 2025. <https://www.euractiv.com/section/defence/news/von-der-leyens-rearm-europe-plan-and-the-holes-in-it/>

²⁴ CSDS, 2025, Special Delivery? The European Council and the March 2025 Defence Summit, March 7, 2025, <https://csds.vub.be/publication/special-delivery-the-european-council-and-the-march-2025-defence-summit/>

²⁵ Draghi, Mario. 2024. The Draghi Report on EU Competitiveness. European Commission. 2023. https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

to have a stronger European defence.²⁶ In fact, according to a recent working paper on Europeans' stances over a stronger European defence, it is found that Europeans indeed welcome a stronger European Defence, but they want "*more ambitious policy packages at the EU level*" and "*no veto rights*".²⁷ Therefore, the Commission would have had even the public support for a more European-based defence rather than a more limited intergovernmental pooling of resources without, in practice, establishing a truly efficient European Defence. Thus, pushing for these policies would have been beneficial in the European Council, especially considering the probable new Franco-German alliance

in the Council, which would allow for more leverage in the same European institution. In addition, Draghi mentioned the importance of joint European funding to maximise productivity growth, which would place the EU in a more strategic position in the geopolitical realm, but this would require structural reforms in EU fiscal rules that are challenging to pass. No industrial consolidation is planned in the ReArm project, and Draghi has thoroughly stressed to reap the benefits of increased joint defence spending without fragmentation and to tackle inefficiencies while creating a more competitive EU defence sector.²⁸

Conclusions

In conclusion, considering the chaotic momentum and the fact that Europe is "*militarily dependent on the United States and cannot simply substitute NATO's structures and processes*",²⁹ the EU should take bolder actions to deliver on what it can do. To start with, the EU should clearly define and assess how the loan repayment mechanism is ensured to avoid any future fiscal headache, prioritise a European defence industrial integration, and propose a joint European command structure, in this case, just providing the ideas would be crucial to ensure that European leaders truly consider the European Defence Union rather than having 27 different armies which are not fully inter-

operable nor efficient in terms of money spent and military equipment's. Ensure that Europe starts to build its strategic enablers and to push for a more independent strategic autonomy of European defence rather than a mere clan of 27 member states. Lastly, make sure to push for the reform of the treaty, removing the veto for the Qualified Majority Voting. These policy suggestions should be considered by the European Commission and the European Parliament, even if the latter has been a great supporter of treaty reform and a stronger European defence. Notably, the European Council has taken strong actions to ensure Europe delivers to its expectations. Consensus build-

²⁶European Commission. 2024. "Eurobarometer." Europa.eu <https://europa.eu/eurobarometer/surveys/detail/3216>

²⁷Burgoon, Brian, David Van Der Duin, and Francesco Nicoli. n.d. "What Would Europeans Want a European Defence Union to Look Like?" Accessed March 13, 2025. https://www.bruegel.org/system/files/2023-06/WP%2009_0.pdf

²⁸Draghi, Mario. 2024. The Draghi Report on EU Competitiveness. European Commission. 2023. https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

²⁹Lippert, Barbara, Nicolai von Ondarza, and Volker Perthes. 2019. "European Strategic Autonomy: Actors, Issues, Conflicts of Interests." 4/2019, January, 39. <https://doi.org/10.18449/2019rp04>

ing and negotiations should be held, and more communication towards the possibility of a stronger European Union with a QMV is needed to ensure support by the

Europeans, even though the latter have been calling for a stronger EU defence for decades.

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