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NATO and the Defence Production Challenge:

A Policy Analysis of the Industrial Capacity Defence Pledge

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Introduction

The 2022 Russian invasion of Ukraine has had a dual-faced effect on the NATO Alliance. The conflict exposed significant disparities and vulnerabilities within the Alliance's cdefence posture, including conflicting priorities in defence spending and the robustness of member states' industrial capacities, which raised concerns about their ability to maintain military readiness while simultaneously providing security assistance to other countries. The conflict also accelerated longstanding cdefence initiatives that previously lacked urgency. The situation prompted NATO members to prioritize increases in cdefence funding and focus on strengthening their military-industrial complex.

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Recognizing these challenges facing the Alliance and building on existing investments, laid the groundwork for NATO's commitment to fulfilling its defence obligations and expanding industrial capacity to bolster defence and deterrence capabilities. As a result, during the 75th NATO Summit in July 2024, the Allies reached a consensus on the NATO Industrial Capacity Expansion Pledge, as a systematic response to the challenges impacting the Alliance' defence industry readiness challenge. [1] However, the Pledge faces the same headwinds that have plagued existing and past NATO initiatives to bolster readiness, including the concern of member states over the loss of sovereignty and the bureaucratic burdens of complying with a myriad of often redundant defence readiness programs. NATO must put consideration of these challenges at the forefront to be able to identify and implement the solutions to its defence readiness struggles.

Challenges and Initiatives Leading to the Announcement of the Industrial Capacity Expansion Pledge

In 2024, prior to the Washington Summit, only one-third of the Allies had met NATO's 2% GDP target.[2] Differing strategic and political priorities contributed to the divergence in defence expenditure. For instance, Baltic nations who are facing acute security threats from Russia, have opted for significantly higher military expenditures, allocating over 2.5 percent of their GDP. In contrast, larger economies such as Italy and Canada have maintained lower spending levels (around 1.4 percent), often influenced by domestic economic challenges.[3] During this period, the United States maintained its defence spending at the highest levels, nearing 3.5% of its GDP, as it served as the largest provider of security assistance to Ukraine. However, a widening partisan divide in the U.S. regarding funding for Ukraine—stemming from the perception that American allies were not contributing sufficiently to Ukraine's defence— exacerbated the delays

[1] "NATO Industrial Capacity Expansion Pledge," NATO, accessed 6 August 2024, https://www.nato.int/cps/en/natohq/official_texts_227504.htm.
[2] "Defence Expenditure of NATO Countries (2014-2024)," NATO, 2, accessed 28January 2025, https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.
[3] Harry McNeil, "Italy Struggles to Meet Nato 2% Target Says Report," *Airforce Technology* (blog),28 August 2024, https://www.army-technology.com/news/italy-struggles-to-meet-nato-2-target-says-report/.

pertaining to financial and military aid to Ukraine.[4] This divergence in defence spending led to diplomatic tensions within member states regarding support for the Alliance and Ukraine.[5]

While the support from the Allies and Ukraine's resilience have yielded successful outcomes at various points during the war, the Allies have encountered significant pressures to meet Ukraine's demands while simultaneously managing their existing stockpiles and manufacturing capabilities. For instance, in the case of ammunition, Ukrainian officials requested "594,000 artillery rounds a month to sustain combat operations."[6] The United States has attempted to ramp up production of its 155mm artillery rounds, of which it supplied only three million rounds to Ukraine between the outbreak of the war and September 2024. Currently, the United States has only been able to produce approximately 40,000 rounds per month,[7] far below the amount required for Ukraine to sustain a long-term war against Russia. The EU also pursued a wide range of programs to address defence capacity production, including the Act in Support of Ammunition Production (ASAP) initiative. This program also fell short of its commitment to deliver one million rounds of ammunition by the March 2024 deadline, revealing decades of underinvestment and supply chain bottleneck issues.[8] Due to the failure of such programs, Ukraine's rapid depletion of artillery shells and its exhaustion of global arms markets for remaining stocks have sparked considerable debates among NATO members regarding the level of support necessary to counter the Russian offensive—before it becomes a national security threat to their own countries.

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[4] Aamer Mahdani, Geir Moulson, and Seung Min Kim, "Biden Calls GOP Holdup of Ukraine Aid 'close to Criminal Neglect' as He Meets with Germany's Scholz," *AP News*, 9 February 2024, accessed 28 January 2025, https://apnews.com/article/biden-olaf-scholz-ukraine-aid-russia-2821cfa05a7d4b0b445fef32cddcb463.

[5] Elliott Davis Jr., "Only 35% of NATO Countries Meet the Group's Defense Spending Target | Best Countries," *U.S. News*, 7 March 2024, accessed 6 August 2024, https://www.usnews.com/news/best-countries/articles/2024-02-12/only-35-of-nato-countries-meet-the-groups-defense-spending-target.

[6] U.S. Library of Congress, Congressional Research Service, *Defense Production for Ukraine: Background and Issues for Congress*, by Luke A. Nicastro, Andrew S. Bowen, Brendan We. McGarry, Daniel M. Gettinger, Jennifer DiMascio, and Christina L. Arabia, R48182 (2024), p. 9.

[7] "Defense Production for Ukraine: Background and Issues for Congress," p. 9.

[8] Raf Casert, "The European Union Is Struggling to Produce and Send the Ammunition It Promised to Ukraine," *AP News*, 14 November 2023, accessed 28 January 2025, https://apnews.com/article/eu-ukraine-ammunition-russia-war-6e0be2d27201bc7ea205ffac7d7a7693.

On the other hand, the resilience of Russian forces in prolonging combat, coupled with the potential return of the unpredictable then-presidential nominee, Donald Trump, to the White House, has contributed significantly to the progress among Allies in increasing their defence spending.[9] A few months after Trump's remarks at a February rally regarding the future of the U.S. extended deterrence policy in Europe if Allies do not meet NATO's minimum defence expenditure target of 2 percent of GDP, then-Secretary General Jens Stoltenberg announced an unprecedented rise in defence spending. In June 2024, he announced that approximately 23 Allies would meet or exceed the 2 percent target by 2024,[10] compared to just 11 in 2023.[11] This increased financial commitment from a larger number of member states helped distribute the financial burden of defence more equitably. Furthermore, a more unified front reinforced the Alliance's commitment to collective security against threats.

In addition to the increases in defence spending among the Allies, significant initiatives have been launched to bolster the military-industrial complex. For instance, similar to the ASAP initiative, which aims to ramp up ammunition production capacity to 2 million shells annually by the end of 2025, the EU has introduced programs such as the European Defense Industry Program (EDIP), which allocates a budget of €1.5 billion to enhance the war readiness of Europe's defence sector.[12] At the national level, countries like Italy and France have announced plans to cooperate in establishing a joint industrial hub for ground defence, while Germany has committed €100 billion to modernize its armed forces.[13] Moreover, at the 2023 Vilnius Summit, Allies agreed on the NATO Defense Production Action Plan to facilitate discussion on joint procurement, enhance production capacity, and improve interoperability among member states. Following this

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[9] Kate Sullivan, "Trump Says He Would Encourage Russia to 'Do Whatever the Hell They Want' to Any NATO Country That Doesn't Pay Enough | CNN Politics," *CNN*, 11 February 2024, https://www.cnn.com/2024/02/10/politics/trump-russia-nato/index.html.

[10] "Defence Expenditure of NATO Countries (2014-2024)," p. 4.

[11] "Defence Expenditure of NATO Countries (2014-2023)," NATO, 3, accessed 28 January 2025, https://www.nato.int/nato_static_fl2014/assets/pdf/2023/7/pdf/230707-def-exp-2023-en.pdf.

[12] "EDIP: The Future of Defence," European Commission, *Defence Industry and Space* accessed 28 January 2025, https://defence-industry-space.ec.europa.eu/eu-defence-industry/edip-future-defence_en.

[13] "Italy and France Sign Letter of Intent to Boost European Defence Industry," *Reuters*, 29 April 2024, accessed January 28, 2025, https://www.reuters.com/world/europe/italy-france-sign-letter-intent-boost-european-defence-industry-2024-04-29/; Guy Chazan, "Germany Approves €100bn Fund to Modernise Its Armed Forces," *Financial Times*, 3 June 2022, sec. Germany, https://www.ft.com/content/d24a5196-fa4e-415c-a9d5-bc19fad93197.

agreement, NATO signed several contracts to meet various defence needs.[14] These contracts include the acquisition of 155-millimeter artillery shells and investments in additional Patriot missiles, with one deal valued at $10 billion (USD) and another at $1.2 billion (USD). Overall, these initiatives indicated a significant shift towards increased collaboration and investment in defence at both national and multilateral levels, aimed at improving readiness and capability in response to evolving threats.

Analysis and Recommendations

NATO's Industrial Capacity Expansion Pledge focuses on enhancing defence industrial capacity and production capabilities across the Alliance through three main objectives: minimizing trade and investment obstacles to enhance a competitive and sustainable defence industry, creating and sharing domestic strategies to enhance overall military production capabilities and capacity, and driving more joint procurement to bolster interoperability.[15]

To understand the challenges related to these three main objectives, it is important to analyze them by considering the different dynamics within the two major blocs in NATO: the United States, which contributes the largest share of GDP to military expenditure, and the EU states with NATO membership (23 of the EU's 27 member states concurrently are NATO members). The next section explores the challenges associated with these three objectives from the perspective of these key actors and offers policy recommendations.

Minimizing trade and investment obstacles to enhance a competitive and sustainable defence industry

The political and military cooperation among NATO countries significantly influences their trade and investment activities. The majority of European countries benefit from the EU's single market framework, and there are numerous bilateral

[14] Ahmet Gencturk, "NATO Signs Another Deal for Artillery Shell Production Worth $1.2 Billion," *Anadolu Agency*, 23 January 2024, accessed 28 January 2025, https://www.aa.com.tr/en/politics/nato-signs-another-deal-for-artillery-shell-production-worth-12-billion/3116488.
[15] NATO, "NATO Industrial Capacity Expansion Pledge."

relationships between the U.S. and the EU. The advantages of such cooperation frameworks have helped to mitigate numerous potential barriers to trade and investment. Nevertheless, a key characteristic of the Alliance remains vital, which is that each country retains sovereignty over its decisions. Thus, particularly in matters of national economy and national security, defence-related trade among Allies presents distinct challenges compared to other sectors.

Following the invasion of Ukraine, the European Commission (EC) has initiated efforts to address critical bottlenecks, including the provision of funding to close capability gaps, the acceleration of ammunition production, and the promotion of cross-border cooperation in local arms manufacturing.[16] However, one of the significant challenges facing the EC has been the difficulty in streamlining the defence market, largely due to resistance from sovereign nations concerned about the EC's authority over their defence planning and spending decisions.[17] Article 346 of the Treaty on the Functioning of the European Union (TFEU) permits member states to diverge from EU regulations and adopt exceptional measures regarding the trade and production of munitions, arms, and military equipment.[18] Many member states view this provision as an opportunity to circumvent EU procurement rules. Therefore, concerns over national sovereignty inherent within the EU framework may impede the effectiveness of NATO's pledge to establish a competitive and sustainable defence industry.

The United States also faces statutory challenges. For instance, tariffs and trade policies, especially those imposed under Section 232 of the Trade Expansion Act of 1962, designed to secure a domestic supply of critical materials for US national security, are

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[16] Jacopo Barigazzi and Laura Kayali, "EU Unleashes Arsenal of Defense Acronyms to Fight Putin," *POLITICO*, 10 April 2024, accessed 28 January 2025, https://www.politico.eu/article/european-union-defense-plans-acronyms-explainer/.

[17] Sophia Besch, "The European Commission in EU Defense Industrial Policy," *Carnegie Endowment for International Peace*, 22 October 2019, accessed 28 January 2025, https://carnegieendowment.org/research/2019/10/the-european-commission-in-eu-defense-industrial-policy?lang=en&center=europe.

[18] Vincenzo Randazzo, "Article 346 and the Qualified Application of EU Law to Defence," *European Union Institute for Security Studies*, July 2014, https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief_22_Article_346.pdf.

perceived as protectionist.[19] The implementation of such protectionist measures, like those witnessed during the 2018-2019 US-China trade war, has impeded the free flow of defence-related goods and services to NATO members.[20] Furthermore, rigorous US regulations stipulate that any US company seeking to directly sell to foreign partners, or any foreign government involved in defence equipment is subject to thorough approval processes and congressional oversight.[21] It is in such intensified protectionist measures that realism directly conflicts with the ideals of liberal free trade, presenting challenges that may hinder the requisite collaborative approach for NATO to address global security threats.

Recommendation: Focus on strengthening the national military-industrial base through public-private sector partnership

The constraints on NATO's authority to influence nations' trade agreements or tariffs, along with the time needed to modify existing trade frameworks and legislative structures, suggest the need for a shift in focus toward enhancing national-level industrial investments before fostering industrial cooperation among Allies. The United States, with a massive defence budget of around $820 billion (USD), exemplifies this approach by routinely granting contracts to private defence firms for the production of military equipment, thereby enhancing domestic industrial capabilities.[22] In stark contrast, European Union member states collectively managed a defence budget of around €290 billion in 2023, yet 78 percent of their procurement expenditures are directed toward non-

[19] "Did Trump's Tariffs Benefit American Workers and National Security?" Brookings, accessed 6 August 2024, https://www.brookings.edu/articles/did-trumps-tariffs-benefit-american-workers-and-national-security/.

[20] "Protectionism Is Failing to Achieve Its Goals and Threatens the Future of Critical Industries," World Bank, 29 August 2023, accessed 6 August2024, https://www.worldbank.org/en/news/feature/2023/08/29/protectionism-is-failing-to-achieve-its-goals-and-threatens-the-future-of-critical-industries.

[21]U.S. Library of Congress, Congressional Research Service, *Arms Sales: Congressional Review Process*, by Paul K. Kerr, RL31675 (2024), p. 2.

[22] "DoD Releases Report on Defense Spending by State in Fiscal Year 2022," U.S. Department of Defense, accessed 6 August 2024, https://www.defense.gov/News/Releases/Release/Article/3538311/dod-releases-report-on-defense-spending-by-state-in-fiscal-year-2022/https%3A%2F%2Fwww.defense.gov%2FNews%2FReleases%2FRelease%2FArticle%2F3538311%2Fdod-releases-report-on-defense-spending-by-state-in-fiscal-year-2022%2F.

EU suppliers.[23] Notably, US suppliers receive 63 percent of this allocation. This trend can largely be attributed to the highly regulated nature of European national defence markets, which impose high barriers to entry and hinder competitive bidding processes. Such constraints limit the potential for leveraging the advantages of streamlining production through the private sector.[24] To address these challenges, it is imperative for NATO and the EU to foster an environment that encourages member states to develop a self-sufficient defence base first to achieve their ultimate collective security goals.

It must be noted that countries with mature, robust defence industries are more likely to collaborate than those with fledgling defence industrial bases. Therefore, future bilateral agreements between countries with strong defence industries and those with weak ones would greatly benefit NATO Members who need to advance their capabilities rapidly. However, such agreements would need to be mutually beneficial for them to be considered sustainable. The US-Italy partnership is an example of enduring cooperative defence production, with both as founding members of NATO. They have been able to partner on numerous projects, most notably with collaborations on the F-35 fighter jet program and Italy hosting Europe's only F-35 production facility.[25] The European market is dominated by the UK, France, Italy and Germany in terms of active defence companies and arms sales, with the United States as the leading arms producer across the Atlantic.[26] These major players are strongly positioned to maintain collaboration rather than countries with smaller defence industries and tend to work with other developed markets over smaller ones.

[23] John Authers, "Draghi Report: Europe Just Doesn't Have What It Takes," *Bloomberg*, accessed 28 January 2025, https://www.bloomberg.com/opinion/articles/2024-09-10/draghi-report-europe-just-doesn-t-have-what-it-takes?srnd=undefined.

[24] RSM US, "Overcoming Barriers to Entering the Defense Industrial Base."

[25] "Reed - 2022 - Integrated Country Strategy Italy.Pdf," accessed 8 August 2024, https://www.state.gov/wp-content/uploads/2022/06/ICS_EUR_Italy_Public.pdf.

[26] Alexander Roth, Reinhilde Veugelers, and Georg Zachmann, "The Size and Location of Europe's Defence Industry," Bruegel, 20 December 2018, https://www.bruegel.org/blog-post/size-and-location-europes-defence-industry.

Creating and sharing domestic strategies to enhance overall military production capabilities and capacity

For decades, Europe has benefited from the security umbrella provided by the United States, resulting in a de-prioritization of its own defence spending. However, the Russian invasion of Ukraine has prompted Europe to escalate its demands for war-ready artillery. The need for action is underscored by Russia's ability to produce three times more artillery shells than the United States and Europe combined can supply to Ukraine. The situation was exacerbated by Russian imports from countries like Iran and the efficiency of its centralized autocratic regime in managing manufacturing processes.[27] The urgency for NATO to bolster its defence readiness is also highlighted by Russia's recent collaboration with North Korea, which has deployed around 10,000 troops to support the war effort in Ukraine.[28]

In their efforts to compete with major global producers like the United Kingdom, United States, and South Korea, Europe's largest ammunition producers, including Norway, France and Germany, have significantly increased their industry capacities.[29] It is worth noting that the strategic priorities in each country differ from the single strategy approach employed by the major global producers. For instance, Italy and France spend approximately $32 billion (USD) and $61 billion (USD) respectively, on defence and prioritize their own defence contracts and weaponry procurement over complying with EU defence programs.[30] On the other hand, Baltic states, which collectively spend around $5 billion (USD) on their defence, view Russia as a pressing threat and seek readily accessible weapons regardless of their origin, rather than those commercially incentivized through EU programs.[31] This divergence in defence spending and industrial

[27] Haley Britzky and Katie Bo Lillis, Natasha Bertrand, Oren Liebermann, "Exclusive: Russia Producing Three Times More Artillery Shells than US and Europe for Ukraine | CNN Politics," *CNN*, 11 March 2024, https://www.cnn.com/2024/03/10/politics/russia-artillery-shell-production-us-europe-ukraine/index.html.
[28] Lorne Cook and Tara Copp, "North Korea Has Sent about 10,000 Troops to Russia to Likely Fight against Ukraine, Pentagon Says," *AP News*, 28 October 2024, accessed 28 January 2025, https://apnews.com/article/russia-north-korea-nato-ukraine-war-9b7357344d988ea32d8ca21f6e22dcc5.
[29] Lara Jakes, "Europe Made a Bold Pledge of Ammunition for Ukraine. Now Comes the Hard Part.," *The New York Times*, 23 September 2023, sec. World, https://www.nytimes.com/2023/09/23/world/europe/eu-ukraine-war-ammunition.html.
[30] "Defence Expenditure of NATO Countries (2014-2024)," p. 7.
[31] U.S. Library of Congress, Congressional Research Service, *Estonia, Latvia, and Lithuania: Background and U.S.-Baltic Relations*, by Derek E. Mix, R46139 (2025), p. 7.

development complicates efforts to align and coordinate collective defence strategies within the NATO framework.

The U.S. military-industrial complex maintains a significant hold on the nation's economy. In 2023, the Department of Defense (DOD) allocated $466 billion (USD) of its $1.5 trillion budget to award private defence contractors.[32] This amount is nearly 80 percent of the combined military expenditures of the top 19 countries in Western and Central Europe.[33] That is not to say the United States is not facing constraints in supplying weapons to Ukraine, particularly due to the inclusion of Israel and Taiwan in the recently ratified National Defense Authorization Act (NDAA).[34] In the upcoming years' NDAA, the U.S. is exploring the expansion of the National Technology and Industrial Base (NTIB) program, an initiative that brings together national security organizations to perform dual-use research and development within the United States, Canada, the United Kingdom and Australia.[35] Furthermore, the DOD has announced the National Defense Industrial Strategy (NDIS) to modernize the defence industrial base to safeguard the interests of the country and its global allies.[36]

[32] Forecast International, "Top 100 Defense Contractors 2023," Defense Security Monitor, 1 March 2024, https://dsm.forecastinternational.com/2024/03/01/top-100-defense-contractors-2023/.

[33] Tamsin Paternoster, "Military Spending in Europe Higher than at End of Cold War," E*uronews*, 22 April 2024, https://www.euronews.com/2024/04/22/military-spending-in-western-and-central-europe-higher-than-end-of-cold-war-data-shows.

[34] U.S. House of Representatives, House Committee on Appropriations, "Committee Approves FY25 Defense Appropriations Act," 13 June 2024, http://appropriations.house.gov/news/press-releases/committee-approves-fy25-defense-appropriations-act.

[35] William Greenwalt, "LEVERAGING THE NATIONAL TECHNOLOGY INDUSTRIAL BASE," *Atlantic Council*, April 2019, accessed 6 August 2024, https://www.atlanticcouncil.org/wp-content/uploads/2019/04/Leveraging_the_National_Technology_Industrial_Base_to_Address_Great-Power_Competition.pdf.

[36] "DOD Releases First-Ever National Defense Industrial Strategy," U.S. Department of Defense, accessed 6 August 2024, https://www.defense.gov/News/Releases/Release/Article/3643326/dod-releases-first-ever-national-defense-industrial-strategy/https%3A%2F%2Fwww.defense.gov%2FNews%2FReleases%2FRelease%2FArticle%2F3643326%2Fdod-releases-first-ever-national-defense-industrial-strategy%2F.

Recommendation: Accelerate and expand the participation of third states in the Permanent Structured Cooperation (PESCO)

Considering the need to rapidly redevelop defence industries, it is imperative that NATO initiatives avoid redundancy, which is a serious challenge considering conflicting national interests and the many ineffective bureaucratic endeavours of the EU. With 26 of 27 EU countries participating, the EU's Permanent Structured Cooperation (PESCO) initiative offers a legal and political framework for member states to bolster their defence capabilities through well-coordinated initiatives.[37] Due to its legally binding nature as opposed to voluntary participation, a PESCO-type system has the potential to be the most effective means for expanding cooperation among NATO nations. To encompass as many European countries as possible, including non-EU NATO member countries, the EU should expedite the participation of third-party states in PESCO, as per the Article 9 provision. This will pave the way for collaboration on capability development. Notably, the UK, Canada, Norway and the US are already involved in certain PESCO projects.[38]

The primary criticism of this recommendation is that allowing third-party states to participate has the potential to undermine the EU's autonomy by making PESCO projects overly dependent on non-EU countries. While this is a legitimate concern, the contractual provisions in place are stringent enough to prevent loose selection criteria for inviting external nations to participate. Additional criticism is that allowing third-party states to join PESCO projects could exacerbate tensions between the EU and the US, but NATO could serve as a platform to ease these transatlantic tensions and endorse projects vital to the security and prosperity of allied members.

Driving more joint procurement to bolster interoperability

In response to evolving geopolitical threats and the ensuing need for a unified response, NATO has recognized the critical importance of enhancing interoperability

[37] "Council Decision (CFSP) 2017/2315 of 11 December 2017 Establishing Permanent Structured Cooperation (PESCO) and Determining the List of Participating Member States," 331 OJ L § (2017), http://data.europa.eu/eli/dec/2017/2315/oj/eng.

[38] "Questions & Answers: Third States' Participation in PESCO Projects," European Union External Action, May 23, 2023, accessed 9 August 2024, https://www.eeas.europa.eu/eeas/questions-answers-third-states%E2%80%99-participation-pesco-projects_en.

among its members. A key initiative in this endeavour is joint procurement, which helps to ensure that collective response is rapid and cohesive. Unlike the US, the EU has faced historical challenges in establishing collaborative procurement to address the increased demand for military spending.[39] Presently, the EU's defence expenditure is only one-third of that of the US.[40] In the past 2 years, the EU launched a number of initiatives to help with joint procurement and interoperability such as the European Defence Industry Reinforcement through the Common Procurement Act (EDIPRA), the Act in Support of Ammunition Production (ASAP), and the Defence Joint Procurement (DJTPF).[41] However, Member States have been unable to conduct overall consolidation and integration of their defence industrial base, partly due to enforced competition that works against consolidation.[42]

This lack of defence procurement coordination within the EU inhibits the ability of NATO to achieve its joint procurement goals. According to the 2022 Coordinated Annual Review on Defense (CARD) report, over 52 percent of all investments in defence programs were preferred to be conducted nationally by Member States, as opposed to only 18 percent being carried out in cooperation.[43] It is not surprising that Nations also opted for this option due to the complex and time-consuming nature of European collaborative approaches.[44] In addition, the absence of a unified market for defence consumables is significantly impeding the interoperability of defence systems. Despite NATO Allies using the same calibre of ammunition, they frequently do not exchange

[39] Josep Borrell, "Time to Strengthen European Defence Industry," European Union External Action, 11 March 2024, accessed 6 August 2024, https://www.eeas.europa.eu/eeas/time-strengthen-european-defence-industry_en.

[40] "The Future of European Competitiveness - In-depth analysis and recommendations," European Commission, September 2024, p. 160, https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf.

[41] European Commission, "The Future of European Competitiveness - In-depth analysis and recommendations," p. 167.

[42] European Commission, "The Future of European Competitiveness - In-depth analysis and recommendations," p. 162.

[43] "2022 Coordinated Annual Review on Defence Report," European Defence Agency, 6, November 2022, accessed 29 January 2025, https://eda.europa.eu/docs/default-source/eda-publications/2022-card-report.pdf.

[44] "2022 Coordinated Annual Review on Defence Report," p. 6.

ammunition or data because of legal, safety, and communication obstacles.[45] As a consequence, many countries continue to primarily procure ammunition through the United States to prevent exacerbating NATO's interoperability challenges.

Recommendation: Redirect spending from overlapping programs

NATO already has existing bodies, such as the Conference of National Armaments Directors (CNAD), which have overseen armament industries to deliver interoperable military capabilities since the early 1990s.[46] Given the evolving situation in the Ukraine conflict, it is crucial to relieve the strained defence economies of member nations from the burden of additional financing and navigating complex bureaucratic procedures for NATO initiatives. For example, European countries are already faced with NATO's substantial direct (€3.8 billion) and indirect (2 percent of GDP defence investment requirement) funding obligations.[47] Additionally, they are dealing with overlapping EU defence initiatives, such as the European Defence Fund (EDF), which not only offer insufficient funding but also fuel controversies, particularly regarding the allocation of EU grants for defence projects, with a tendency to favour the largest European corporations.[48] Hence, NATO should encourage Member States to prioritize the enhancement of their own national defence industries to maintain readiness. This could be achieved by urging European nations to allocate more private sector contracts towards strengthening their native R&D capabilities and by supporting the US in enhancing its defence industry with cloud capabilities to compete with China's influence in this sector.[49]

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[45] "NATO Review - Turning Standard Ammunition into Sharable Ammunition," NATO Review, 10 November 2023, https://www.nato.int/docu/review/articles/2023/11/10/turning-standard-ammunition-into-sharable-ammunition/index.html.
[46] "Conference of National Armaments Directors (CNAD)," NATO, accessed 15 August 2024, https://www.nato.int/cps/en/natohq/topics_49160.htm.
[47] "Funding NATO," NATO, accessed 18 August 2024, https://www.nato.int/cps/en/natohq/topics_67655.htm.
[48] Barigazzi and Kayali ,"EU Unleashes Arsenal of Defense Acronyms to Fight Putin."
[49] "Department of Defense Announces Joint Warfighting Cloud Capability Procurement," U.S. Department of Defense, accessed 15August 2024, https://www.defense.gov/News/Releases/Release/Article/3239378/department-of-defense-announces-joint-warfighting-cloud-capability-

Opponents of this recommendation argue that de-prioritizing collaborative approaches to joint procurement could exacerbate the isolation of vulnerable countries and result in a widening gap in standardization. However, with diverse national priorities and varying industrial capabilities, individual countries may be better equipped to address their needs more simply and avoid the increase in vulnerability from relying on a very complex system that requires high interoperability to function.[50] Another critique of this proposal pertains to relying on private companies for defence functions, specifically that private companies may have priorities (i.e. maximizing shareholder value) that do not align with national interests, thereby posing national security risks. That said, there are considerable advantages to using well-established private companies, in particular, those capable of leveraging economies of scale to win price-competitive bids, can often operate more efficiently than government-run organizations. Furthermore, competition among private defence contractors can stimulate technological advancements in defence capabilities. In time, these companies can be invited to participate in PESCO projects to enhance joint procurement among Member Nations once they have established their capabilities, ultimately improving interoperability and operational effectiveness.[51]

Conclusion

This analysis set out to evaluate the effectiveness of NATO's Industrial Capacity Expansion Pledge which was intended to address gaps that were not addressed by the Defence Action Plan such as nations needing to balance their sovereignty with participation in EU or NATO membership.[52]

In response, the Industrial Capacity Expansion Pledge focuses on long-term actions such as the development of national plans and the removal of barriers to trade and investment.[53] Yet there are still barriers to the implementation of the Pledge. Firstly, the

procurement/https%3A%2F%2Fwww.defense.gov%2FNews%2FReleases%2FRelease%2FArticle%2F3239378%2Fdepartment-of-defense-announces-joint-warfighting-cloud-capability-procurement%2F.

[50] European Commission, "The Future of European Competitiveness - In-depth analysis and recommendations," p. 163.

[51] EEAS, "Questions & Answers: Third States' Participation in PESCO Projects"

[52] Machi, "NATO Prepares Industry Plan to Boost Arms Production."

[53] Machi, "NATO Prepares Industry Plan to Boost Arms Production."

participation of Alliance members in cross-border trade needs to be in the security interest of the participating states, trade policies will need to be examined, and private defence companies will need to meet nationally imposed standards to maintain a competitive edge. NATO's focus should be on supporting member nations to develop their own defence industries for the time being. Secondly, countries are faced with overlapping priorities to replenish stocks and produce capabilities and capacities. A recommendation to assist with rapidly developing defence industries is to look to expand the EU's PESCO initiatives to possibly include non-EU NATO countries in helping to develop their defence capabilities. Lastly, the ability to conduct joint procurement is hindered by the protective nature of defence markets and high competition. It would be beneficial to overhaul existing programs and redirect spending from less efficient defence programs that encourage duplication through enforced competition bidding.

Heading into 2025, it is clear that the security landscape in Europe is still volatile and will not be changing anytime soon. NATO is focused on the actions that must take place to achieve this, such as increases in GDP spending on defence, defence cooperation, and increased joint procurement, however, it is the sovereign countries that must make it happen. From a governance perspective, the effectiveness of NATO's Industrial Capacity Expansion Pledge will need to be further assessed, along with Member Nations' progress on their commitments, as they head into this year's NATO Summit in The Hague. Additionally, the US will see a new administration take over with Donald Trump's presidency and undoubtedly, NATO will be kept at the forefront of defence policies. Both the EU and the US will have a heavy emphasis on defence spending and need to strengthen their industrial military bases. While much remains uncertain, with NATO as an effective coordinator to foster cooperation within the Alliance, progress in industrial defence production to support efforts in Ukraine is on the way.

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