

ReArm Europe Plan / Readiness 2030



One step forward for Europe's defence

by Luigi Scazzieri, 26 March 2025

In an effort to adjust to the new strategic reality, the EU is trying to make it easier for member-states to strengthen Europe's defences. Success or failure depends on them.

Europe is navigating an era of turbulence. America's diminished interest in Europe's security has sharpened the threat from Russia, and made clear to Europeans the urgency of strengthening long-neglected defences. The EU is trying to facilitate that process: on March 19th the Commission released a White Paper for European Defence, together with detailed proposals to implement the [ReArm Europe plan](#) that had been announced by Commission President Ursula von der Leyen two weeks earlier. The Commission's objective is to boost Europe's defence spending by up to €800 billion.

The rationale of the EU's proposals is that Europeans have not invested enough in their defences, while threats are growing. A possible Russian victory in Ukraine is likely to encourage further aggression, not least as Russian President Vladimir Putin has moulded an economy suited for war. Moscow's military capabilities are growing while Europe faces large capability gaps, and its defence industry remains unable to produce equipment at the required speed and volume. According to the White Paper, increasing support for Ukraine "is the immediate and most pressing task for European defence". At the same time, "a massive increase in European defence spending is needed" to "prevent a potential war of aggression."

With its recent initiatives the EU is building on its role as an 'enabler' of a stronger European security posture. The Commission recognises that member-states are in the driving seat, and that NATO is the institutional framework through which most of them organise their defences. The EU's role is to remove any legislative and regulatory obstacles that stand in the way of strengthening European security, to provide additional financial resources, and to steer member-states towards co-operation by co-ordinating their efforts. In that sense both the White Paper and the ReArm Europe plan build on the EU's Defence Industrial Strategy released last year, and on its accompanying European Defence Industry Programme (EDIP), which is still under negotiation in the European Parliament and the Council of Ministers.

This paper assesses the main elements of the EU's most recent proposals.

A national spending boost

ReArm Europe, which was renamed ReArm Europe/Readiness 2030 after Italy and Spain complained the original term had militarist connotations, is [meant to raise European defence spending by up to €800 billion over the coming years](#). The plan has several elements. First, the Commission proposes to activate national escape clauses in the stability and growth pact for four years, so that defence spending would not count towards fiscal deficit limits. If all member-states used the additional flexibility to raise spending by the allowed maximum of 1.5 per cent, this would generate €650 billion in additional spending over four years.

Second, the Commission has proposed [a new loan instrument](#), 'Security Action for Europe' (SAFE), worth up to €150 billion. This involves the EU borrowing on markets using its strong credit rating and then lending funds at favourable rates to member-states which request loans. Eligible defence projects must involve at least two countries and address specific capability gaps. As an additional sweetener, the Commission has proposed a VAT waiver for SAFE-funded projects.

Third, the Commission will propose measures to make it easier for member-states to repurpose regional cohesion funds to help the defence industry. Fourth, the plan repeats the much-discussed proposal to extend lending by the European Investment Bank to the defence sector, with the idea of doubling annual investment to €2 billion and broadening the scope of eligible activities to include investments in areas such as drones, space and cybersecurity. Only investments in lethal weapons would be off the table. Finally, the Commission promises to make it easier to mobilise private savings and channel them into defence.

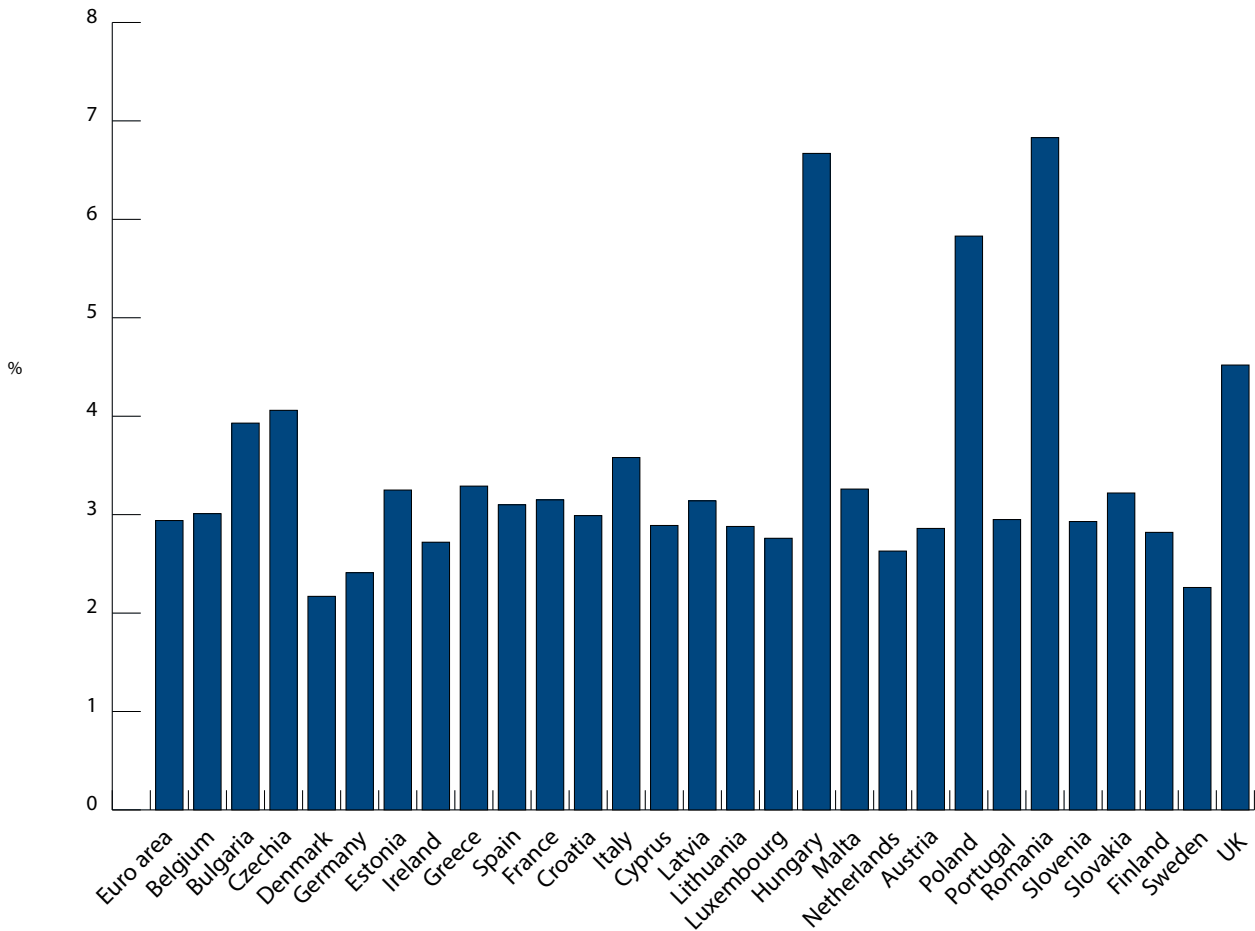
These measures make up the core of the plan and potentially could add up to a substantial EU contribution to strengthening European security. The key question is how much member-states will draw on the new loans, and use the new flexibility in the fiscal rules to increase their defence spending. The loans have few conditions attached, which could make them quite appealing to member-states that face higher financing costs than the EU, and that wish to raise defence spending.

EU loans will have an interest rate of around 3 per cent, which means that there would be some benefit for countries with higher borrowing costs, such as Romania (7 per cent) Poland (around 6 per cent) or Italy (around 4 per cent). For many other member-states the difference from national borrowing costs is too limited to make the loans appealing. But even for Poland, the savings would not be large: for every €10 billion spent, Poland would have to pay €300 million in interest rather than €600 million.

Even if member-states take SAFE loans, they may not generate much additional spending. Polish officials say they are satisfied with the programme and that Poland will benefit from the loans. However, it is likely to use them to pay for already-planned national spending. The same will probably be true for other member-states.

Meanwhile, the suspension of the deficit rules may give added political cover to member-states that want to increase defence spending but would breach the deficit limit. It may also make some member-states with high debts and high financing costs, more confident that they can issue some additional debt without risking a market blowback. Crucially, neither the activation of the escape clause nor the SAFE loans are likely to convince member-states where public opinion opposes more defence spending. The fact that Italy and Spain objected to the Commission's defence plan being called ReArm Europe is emblematic of public scepticism about raising defence spending in parts of Europe.

Chart 1: Long-term government bond yields



Source: Eurostat, February 2025.

The move to extend EIB and other forms of lending to the defence sector is of uncertain value. The key blockage to expanding production for established defence firms is not a lack of financing but a lack of firm, long-term, government orders. If these existed, then financing would be less of an issue, even for SMEs. However, depending on its risk appetite, private financing can play an important role in providing funding to new entrants with potential but a limited track record. Meanwhile, directing cohesion funds to defence will not be easy as this will mean diverting funding from other priorities.

Advancing Ukraine’s integration into the EU’s defence industrial base

The desire to support Ukraine lies at the heart of the EU’s defence efforts. The White Paper argues that Europeans need to provide Kyiv with more military support in the form of ammunition, air defence, drones and space assets. It also recognises the importance of supporting Ukraine’s defence industry and integrating it more closely into that of Europe. The White Paper further advances the idea of treating Ukraine as an EU member for EU defence instruments, which was already present in the proposed EDIP regulation. Ukraine will not be eligible for the SAFE loans, but Ukrainian firms would be able to take part in procurement funded by the loans and other EU instruments.

The emphasis on partnering with Ukraine and funding production in Ukraine reflects a broader shift in European thinking about how to be more cost-efficient in supporting Kyiv. It also reflects the recognition that Europeans have much to learn from Ukraine, especially in terms of defence industrial innovation, and procurement cost and speed. However, it is ultimately up to the member-states to give equipment to Ukraine, whether from their own stocks, or by procuring new equipment, including from Ukraine itself. It is also up to the member-states to invest more in Ukraine's defence industry. The White Paper does not mention the European Peace Facility, a financial instrument which the EU has used to reimburse member-states for assistance they gave to Ukraine. That is probably because disbursements from the facility need consensus and Hungary has been blocking disbursements worth over €6 billion for almost two years.

Strengthening European capabilities

When it comes to strengthening Europe's own capabilities, the White Paper identifies seven priority areas for the EU: 1) air and missile defence; 2) artillery systems and missile systems; 3) ammunition ; 4) drones and anti-drone systems; 5) military mobility; 6) AI, quantum, cyber and electronic warfare; and 7) strategic enablers (such as strategic airlift and air-to-air refuelling aircraft, intelligence and surveillance, space and other secure communications assets).

This list of capability gaps is already well-known. The White Paper's prescriptions for how they should be filled restate ideas already presented in other EU documents, above all the [European Defence Industrial Strategy of March 2024](#). The priority is to have a co-ordinated effort by member-states, to aggregate demand better, provide long-term orders, reduce fragmentation and improve interoperability. Orders should mainly go to European industry, to provide it with enough certainty to scale up production.

The big new mechanisms to fund such efforts are the €150bn of SAFE loans and the additional flexibility in the fiscal rules. However, while these will contribute to boosting national budgets, it is not clear how much they will steer member-states towards co-operation. [Flexibility in national budgets](#) is given with few conditions, and not specifically to invest in co-operative projects. Meanwhile the loans from SAFE can be requested by as few as two countries, one of them being a member-state. Despite the VAT waiver, this is unlikely to have a big aggregating effect on spending.

The lack of a sizeable tool to steer member-states towards joint procurement in the way that the European Defence Fund (EDF) fosters joint research [and development](#) remains a big gap in the EU's arsenal. The proposed EDIP is supposed to provide some incentives, but has not yet been approved, and in any case is a small instrument, worth only €1.5 billion over two years – and not all of that sum would be aimed at procurement. In the White Paper the Commission says that member-states should urgently address capability gaps by setting up so-called Defence Projects of Common European Interest, which would benefit from EU incentives. However, these incentives have not yet been spelt out.

The White Paper also lists a series of measures to help support the defence industry in its efforts to expand production and innovate. Notably, the Commission wants to set up a Strategic Dialogue with the defence industry, to gather input for a defence omnibus simplification proposal, due by June 2025. The idea is to try to make EU regulation work better for the defence sector, including by reducing administrative burdens, facilitating access to finance and ensuring access to critical inputs.

Simplification may well turn out to be a distraction, and talk of additional financial support is not very concrete. But the plethora of proposals shows that defence is front and centre of the EU's thinking and the Commission wants to do what it can to ensure that regulation works well for the defence sector.

A more pragmatic stance on partnerships

The EU's defence ecosystem has been closed to non-EU partners, except for Norway, which has been treated almost as an EU member. The EDIP proposal introduced the idea that Ukraine would also be eligible to participate, and both the White Paper and ReArm Europe take the idea further. For the first time, however, there is clear pathway for other non-EU partners to become more closely involved.

Specifically, according to the proposed SAFE regulation, countries that have a Security and Defence Agreement with the EU can negotiate a follow-on agreement to participate in joint procurement actions. The nature of co-operation with each partner will be negotiated in follow-on agreements for each procurement in which the partner would be involved.

Countries that already have a security and defence agreement with the EU include Japan and South Korea. The EU and the UK do not yet have one but are negotiating one, though talks have been slow as security has been linked to other bilateral issues, including fishing quotas. Concluding a partnership [should be a priority](#) for both sides. The EU and UK defence industries are deeply intermeshed and there is extensive bilateral and small-group co-operation between the UK and many EU countries on developing military capability. There is an urgent need for the EU and the UK to deepen defence co-operation, both to seize opportunities and to avoid the risk of fragmenting the pan-European defence industrial base.

A watershed moment in EU defence?

The ReArm Europe/Readiness 2030 plan and the defence White Paper are significant steps. The EU is adjusting to the new reality created by the acute threat from Russia and loss of faith in the US security guarantee. The Commission is trying to facilitate national rearmament as much as possible.

The EU's package is unlikely to be worth €800 billion. The change in the fiscal rules is a welcome recognition of the fact that large-scale defence investments are needed, and that the EU should not stand in the way. But not all member-states will make use of that flexibility. Meanwhile the €150 billion loan instrument is also unlikely to be fully taken up. But it will be helpful for some member-states, above all Poland, and in essence subsidise some of their defence spending. The SAFE loans could pave the way for grant-based defence financing, as happened during the Covid-19 pandemic with the Recovery and Resilience Facility.

More broadly, the EU's new stance on working with close partners is a welcome development and should set the parameters of the debate for future EU defence funding instruments. As long as the EU decouples defence and security from issues such as fishing rights, ReArm Europe should also help pave the way for greater EU-UK co-operation. Meanwhile, the White Paper's emphasis on deepening dialogue with the defence industry and making regulation more light-touch is a recognition of the fact that this is a strategic sector for Europe.

One shortcoming is that ReArm Europe on its own is unlikely to do much to foster co-operation between member-states in filling capability gaps. Neither activating the national escape clause nor the SAFE loans are structured in a way that is likely to meaningfully change member-states' calculations on whether to co-operate or work nationally. Boosting national efforts is valuable, but the EU should also try to provide more incentives to encourage member-states to work together.

The EU's focus must now shift to implementation. The Commission will drive the regulatory simplification effort, but more broadly the member-states are the key players when it comes to filling their own capability gaps – whether through increasing military support for Ukraine and partnering with its defence industry, working together and placing long-term orders, or making the best use of additional sources of funding such as cohesion funds. The future of Europe's security lies in their hands; the unreliability of the Trump administration and the threat from Russia make it urgent for them to act decisively.

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