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Aerospace & Defense Insights

European Defence
Sector Outlook 2025



Through Aerospace & Defense Insights, we share with you the top legal and political issues affecting the aerospace and defense (A&D) industry. Our A&D industry team monitors the latest developments to help our clients stay in front of issues before they become problems, and seize opportunities in a timely manner.

As we begin 2025, the defence sector is poised for significant developments driven by geopolitical shifts, technological advancements, and evolving regulatory landscapes. This article explores key themes shaping the future of defence in Europe and beyond, including the role of the first-ever EU Defence Commissioner, political influences on the industry, and opportunities and challenges for investment and innovation.

The EU's First Defence Commissioner: A New Era for European Defence

For the first time, the European Union has appointed a Defence Commissioner, signaling its intent to play a more central role in defence policy and coordination. The inaugural holder of this position, **Andrius Kubilius**, a former Prime Minister of Lithuania, brings extensive experience in governance and international relations. This milestone reflects a significant shift in EU defence priorities, shaped in part by the Ukraine war, which underscored the need for a unified European defence strategy.

For years, many stakeholders resisted the idea of an EU defence role, arguing that national governments were better positioned to handle security matters. Beyond sovereignty concerns, there was also ideological resistance to the EU engaging in defence at all. Some policymakers believed the EU should focus solely on being a civil power, emphasizing peacebuilding, humanitarian aid, and economic development rather than military activities. However, the war highlighted the limitations of fragmented national approaches and created momentum for stronger EU coordination.

Commission President Ursula von der Leyen outlined Kubilius's responsibilities in a Mission Letter, a document that serves as the political agenda for his term. The letter emphasizes defence industry consolidation, boosting investment in cutting-edge technologies, and strengthening Europe's strategic autonomy. Kubilius aims to align these priorities with overarching EU objectives, stating, "*Europe must be prepared to defend its values and citizens in an increasingly uncertain world. This requires unity, innovation, and a commitment to shared security.*"

Political Influences on Defence Business

The return of Donald Trump to the US presidency has renewed pressure on NATO members to meet or exceed the 2% GDP defence spending target. This policy is expected to drive higher budgets across European countries but could also stimulate procurement of US-made defence systems, potentially creating tension with EU industrial policy. European countries will need to balance NATO obligations with their pursuit of strategic autonomy to avoid overreliance on external suppliers.

Meanwhile, the European political landscape in 2025 will be shaped by the fall-out of elections in several countries, including Germany and France, two of Europe's largest economies. In Germany, debates will focus on balancing pacifist traditions with increasing military commitments, in particular in Ukraine. Moreover, the country faces the challenge of having to make up for many years of insufficient funding for the armed forces within a short period of time in order to modernize the army – particularly difficult due to low growth rates of the national economy.

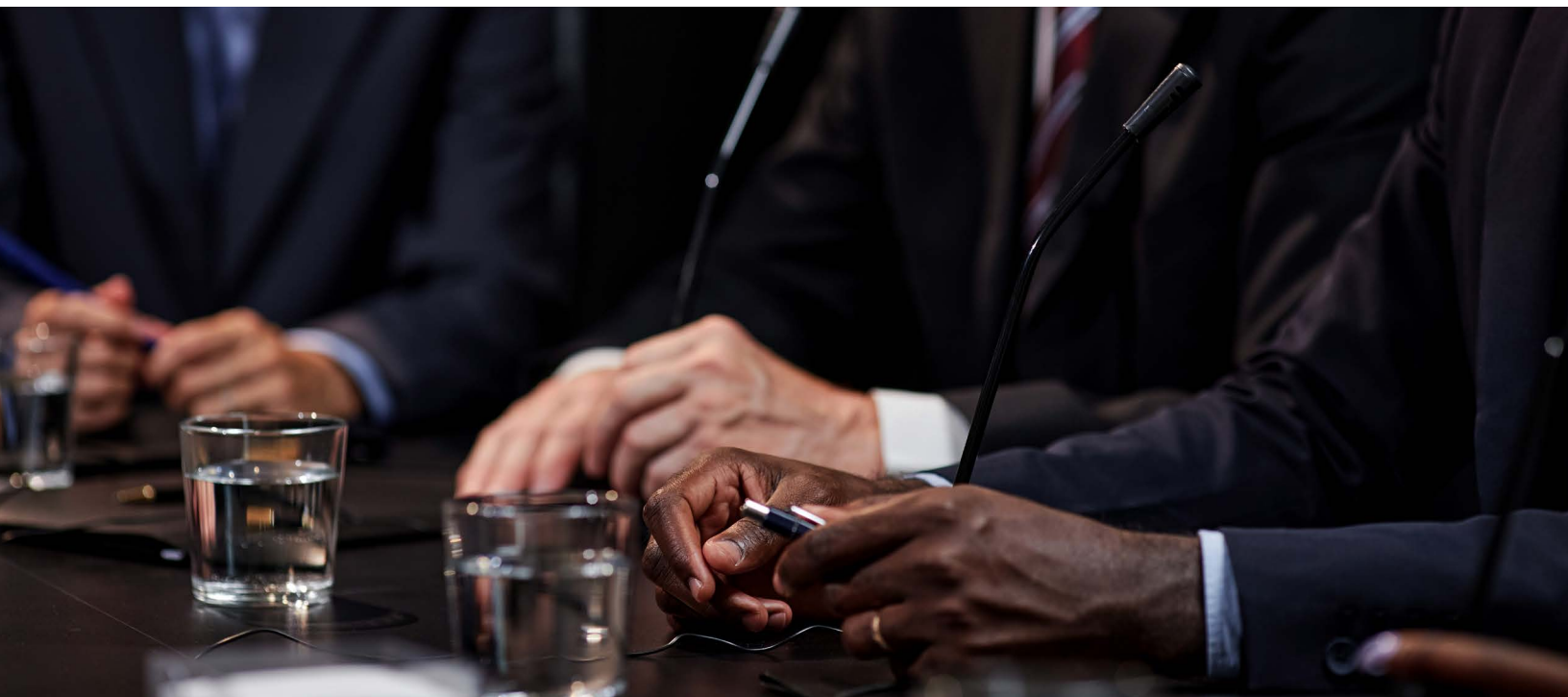
France, which kept its military in better shape over the last decades and preserved its strategic industrial defence industry base, is nonetheless challenged by unstable majorities in Parliament, which in December led to the collapsing of the Barnier government after only 90 days. This instability in two of the main EU Member States makes any further EU defence initiatives and advancing the concept of a European Defence Union particularly difficult. The interplay between domestic politics and international obligations will be critical in shaping defence strategies, with leaders also needing to address public concerns about rising military expenditures.

Next steps for the European Defence Industry Programme (EDIP)

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The EDIP, a proposed 2024 initiative by the European Commission aimed at strengthening Europe's defence capabilities, could become a cornerstone of the EU's strategy for the sector if Member States can agree in the course of the year on important questions, not least the budget. The EDIP represents an effort to better foster innovation through a projected €1.5 billion fund allocated over several years. The programme prioritizes cross-border collaboration and the inclusion of small and medium-sized enterprises (SMEs) in defence contracts to ensure a diversified and competitive market.

However, implementing the EDIP comes with significant challenges. The European defence market is fragmented, with national industries often prioritizing domestic suppliers over multinational cooperation. This industrial fragmentation, coupled with political pressures and the EU's complex decision-making processes, leads to inefficiencies and delays. Moreover, Europe remains heavily reliant on non-EU suppliers for key technologies, raising concerns about strategic autonomy. Budget constraints further jeopardize the program's success and the announced €1.5 billion is a very slim response compared to the needs for a modernization of European defence forces and to budgets at Member States' level.



Nonetheless, the political goals of EDIP for better coordination of procurement and R&D projects across Member States will be welcomed by industry. It seeks to foster public-private partnerships to accelerate innovation and enhance the availability of EU suppliers. Additionally, the program encourages Member States to align national defence priorities with broader EU objectives, ensuring coherence and efficiency. EDIP will likely not be a game-changer, but could be an important step in overcoming entrenched challenges and fostering genuine collaboration among stakeholders.

EU adjusts budget policies to enhance defense spending

Significantly larger impact in terms of budget may follow the EU's plan to adjust defense spending rules. The European Commission is adjusting its spending policies to permit EU member states to allocate existing cohesion funds toward defense-related projects. This shift allows for investments in dual-use products and infrastructure that enhance military mobility, such as reinforcing roads and bridges to support the movement of military equipment. Direct purchases of weapons with these funds remain prohibited.

Additionally, the Commission is considering linking the disbursement of cohesion funds to the implementation of reforms favored by Brussels. This approach would transform the €392 billion cohesion fund into a performance-based model, requiring countries to meet specific targets to receive funding. The objective is to enhance the efficiency of fund allocation and ensure alignment with EU priorities, including defense and security.

These developments reflect a broader shift in EU priorities toward strengthening defense capabilities and strategic autonomy, especially in light of recent geopolitical challenges. The adjustments set the stage for a more defense-focused approach in the next multiannual financial framework, beginning in 2028.





Consolidation of the European Defence Industry?

Efforts to consolidate the European defence industry have faced resistance despite longstanding ambitions. National governments often prioritize their domestic suppliers, and despite 15 years of harmonised EU Defence Procurement rules, there are still diverse regulatory frameworks and procurement practices which hinder integration. However, the urgency created by the Ukraine war and rising geopolitical tensions have led many stakeholders in politics and in the industry to call for more consolidation. At the same time, the rise of political powers on the extreme left and right in many European countries does not help this goal, as these oppose the concept of further European harmonization in the defence sector.

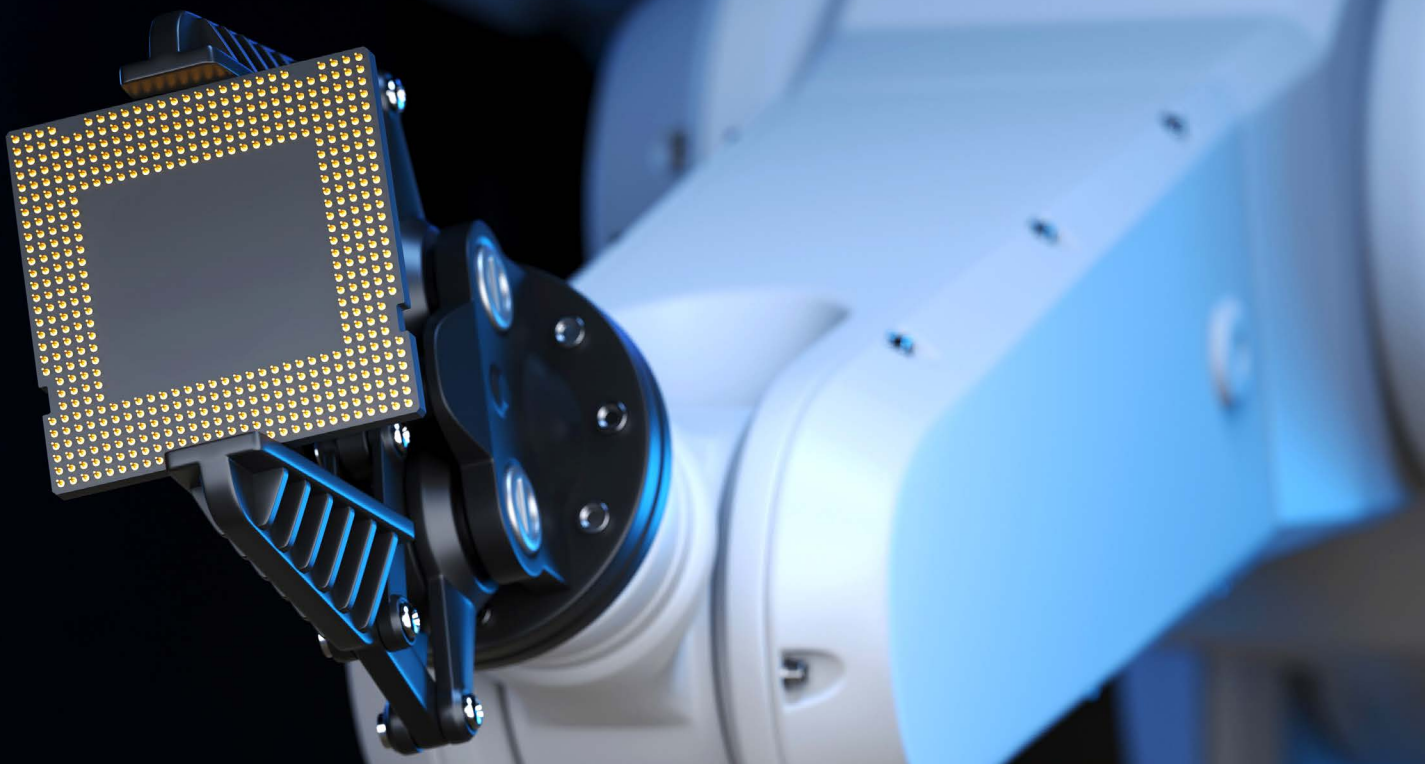
Outside the core defence industry there is already significant cross-European integration and collaboration taking place. Emerging trends suggest a growing emphasis on dual-use technologies—those with applications in both civilian and military sectors. Innovations in areas such as satellite communications, quantum computing, and green propulsion systems are drawing attention from governments and private investors alike. Defence start-ups, in particular, are becoming key drivers of innovation, challenging traditional players with more agile development cycles and a willingness to embrace novel technologies. In 2025, collaboration between start-ups and established firms could play a critical role in bridging gaps in expertise and scaling up production capabilities.

The Importance of AI for Defence and Trends in Europe

Artificial intelligence is revolutionizing defence capabilities, from autonomous systems to predictive analytics. In 2025, Europe is focused on closing the gap with the US and China in defence AI by increasing R&D investments. Ethical considerations are central to Europe's approach, as the region seeks to balance innovation with adherence to international laws and ethical standards. At the same time, integration challenges, such as ensuring interoperability and addressing cybersecurity risks, remain significant hurdles.

AI-powered decision-making tools are being tested for battlefield management, providing commanders with real-time intelligence and predictive outcomes. These innovations promise to enhance operational efficiency dramatically. Europe's future success in defence AI will depend on fostering collaboration between public and private sectors and ensuring regulatory clarity.

Because advanced technologies such as AI, in particular in combination with drones, play a major role on the battlefields of Ukraine, European companies have been at the forefront of learning from the real-life experience there. This can be a competitive edge for European defence players as globally there is high demand for proven AI solutions combining software with hardware such as drones, sensors or artillery.



Opportunities and Challenges for M&A in European Defence

Mergers and acquisitions remain a vital tool for scaling innovation and competitiveness in the defence sector. Strategic acquisitions enable companies to access cutting-edge technologies and leverage synergies across borders. However, M&A activity in Europe can face obstacles such as golden shares or national veto rights, which allow governments to block transactions deemed threats to national security. Heightened scrutiny of foreign investments in critical sectors further complicates deal-making.

While the EU has been working to harmonize “foreign direct investment” screening procedures across Member States, in practice the approval of acquisitions still rests with national governments who sometimes even critically look at intra-EU deals. Investors hence need to have a robust political outreach strategy when considering transactions in the defence field in Europe. At the same time, lower growth rates and public budget constraints in Europe require intense private capital investment which also present opportunities for non-European investors to convince governments if they can present a coherent strategy.

Looking ahead to 2025, European companies selling to U.S. defence supply chains may find a more sustainable basis for growth compared to those focusing primarily on Ukraine, should the war eventually come to an end. The demand for military equipment tied to the Ukrainian conflict could diminish quickly if peace is restored, whereas the U.S. market, driven by larger-scale and longer-term strategic procurement cycles, might offer more stability.

Regardless of the uncertainty around the situation in Ukraine, for some areas such as ammunition, and offensive and defensive missiles there will be a need for many years to rebuild stockpiles of certain products that have been drawn down as a result of transfers to Ukraine. In the EU, the Act in Support of Ammunition Production (ASAP) is an EU initiative launched to urgently deliver ammunition to Ukraine and help Member States replenish their stocks. With a budget exceeding €500 million, ASAP aims to enhance Europe’s ammunition production capacity by addressing supply chain bottlenecks and shortages, focusing on areas such as explosives, powder, shells, missiles, and testing and reconditioning certification.

Conclusion

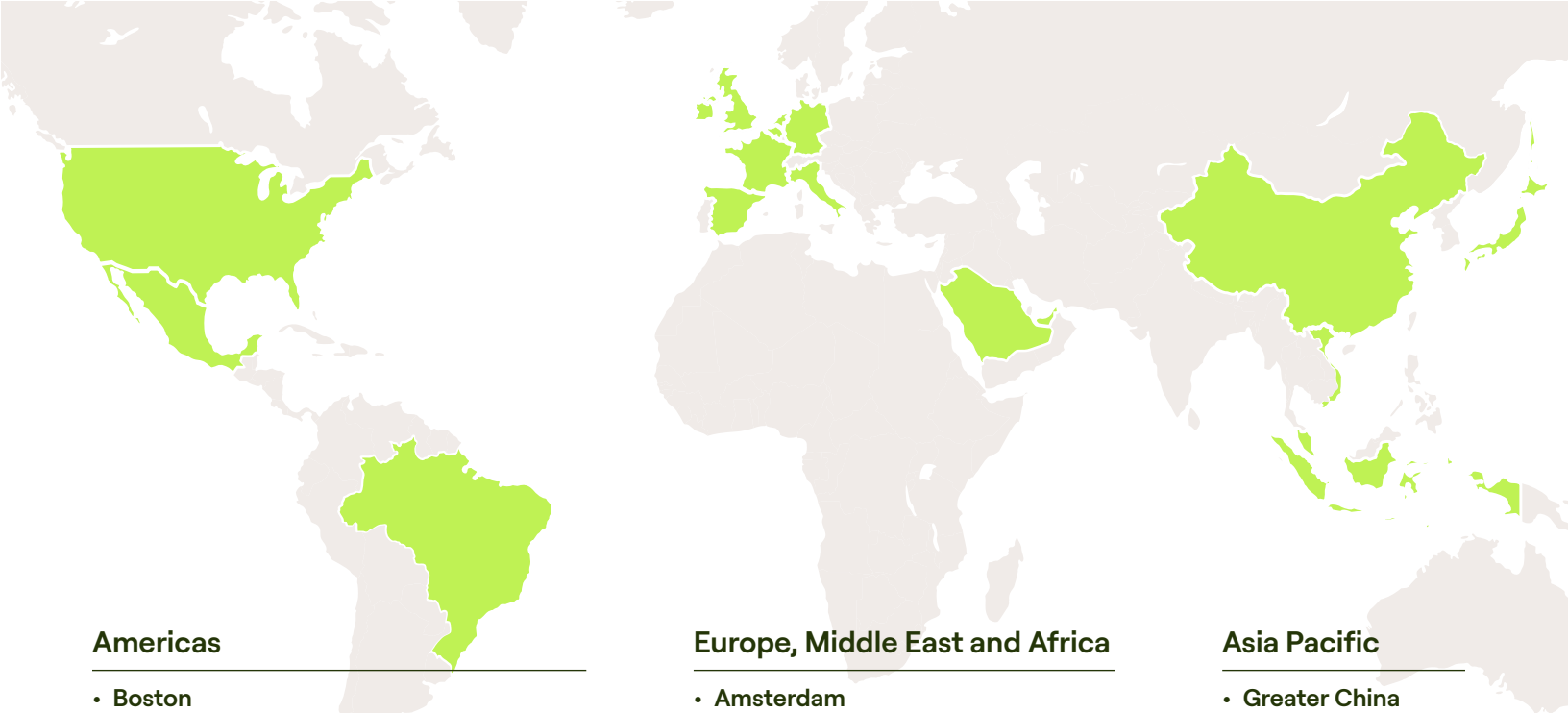
The European defence sector in 2025 will be shaped by dynamic interactions between political agendas, technological advancements, and market forces. While challenges such as industry fragmentation and regulatory hurdles persist, opportunities for growth and innovation abound. By embracing strategic cooperation and leveraging emerging technologies, the sector can chart a course toward greater resilience and global leadership.

Author



Dr. Falk Schöning

Partner – Brussels, Berlin
falk.schoening@hoganlovells.com



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