The EU adopts a comprehensive legal framework to strengthen the defense industry and guarantee supply in Europe

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Regulation (EU) 2025/2643, approved on December 16 and published in the Official Journal on December 29, establishes a European Defence Industry Programme and measures to ensure the availability of strategic products. With a €1.5 billion funding allocation for 2025-2027, it aims to strengthen the European industrial base and support the reconstruction of Ukrainian industry.

On December 29, 2025 the Official Journal published Regulation (EU) 2025/2643 of the European Parliament and of the Council of 16 December 2025 establishing the European Defence Industry Programme and a framework of measures to ensure the timely availability and supply of defense products (**EDIP Regulation**).

The EDIP Regulation establishes a comprehensive framework to strengthen the technological leadership, innovation, readiness, long-term competitiveness, resilience, integration, and preparedness of the European defense technological and industrial base (**EDTIB**) for the purpose of ensuring the timely availability and supply of defense products and supporting the recovery, reconstruction, and modernization of the Ukrainian defense technological and industrial base (**Ukrainian DTIB**).

It sets out a budget for actions in the 2025-2027[1] period , built around two main blocks:

- The European Defence Industry Programme, with a 1.2 billion budget (although it can receive additional contributions)[2].

- The Ukraine Support Instrument, with a €300 million budget (which can be increased with further contributions).

In both cases, the funding will cover only the costs necessary to pursue the objectives of the program and the instrument, and the costs of purchasing and maintaining defense products for military or defense purposes are expressly excluded.

The regulation also addresses other action mechanisms, and establishes their legal framework: (i) European Defence Projects of Common Interest; (ii) a European Military Sales Mechanism; (iii) the Structures for European Armament Programmes (SEAPs), including (iv) a detailed set of measures to anticipate and respond to possible supply crises in the internal market for defense products.

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[1] The Regulation states, however, that, if necessary and to enable the management of actions not completed by the end of December 31, 2027, appropriations may be entered in the Union budget until 2033 to cover the expenses needed to fulfill the objectives set out in the Program and in the Ukraine Support Instrument.

[2] Stemming, for example, from contributions by the member states or international financial institutions or entities, as stated in article 5 of the EDIP Regulation. It expressly allows the use of member states' contributions supported by the European Recovery and Resilience Facility under Regulation (EU) 2021/241. In this case, it is accepted as an exception for investments not to comply with the "do no significant harm" (DNSH) principle if the Member State justifies that this is feasible or appropriate.

It is further allowed for actions funded under the Program to receive contributions from other European funds provided that those contributions do not cover the same costs (under article 6.2 of the EDIP Regulation).

The European Defence Industry Programme - Chapter II

Objetives

The program aims to increase the competitiveness, resilience, and availability of the EDTIB by starting and accelerating its adjustment to structural changes imposed by the evolving security environment.

The specific aim of this program is to:

i. enhance cooperation in defense procurement, by incentivizing member states to aggregate demand, harmonize defense capability requirements and strengthen solidarity with each other, which will ultimately lead to greater interoperability and interchangeability, and the predictability of demand;

ii. accelerate the capacity for adaptation of supply chains and increase manufacturing capacities, reduce production lead time and support the industrialization and commercialization of defense products already funded by the EU or supported by the member states, taking into account their specific needs in the face of conventional threats; and

iii. improve the security of supply and the geographical presence of the EDTIB throughout the Union.

Requirements for recipients

As a general rule, only legal entities established and having their executive management structures in the Union or in an associated country may receive funding under the program, and they should not be subject to direct or indirect control by a third country (or by an entity from a non-associated third country)[3].

Moreover, the infrastructure, facilities, assets, and resources of the recipients of European Union funding that are used for the purposes of the action must be located on the territory of a member state or of an associated country for the entire duration of the action[4].

Eligible actions and limits

Four types of actions are eligible for funding under the program:

- **Common procurement** (including establishing, managing or maintaining defense industrial readiness pools)[5].

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[3] Exceptions are allowed, however, if certain guarantees are provided to the Commission that the entity's involvement would not contravene the security and defense interests of the Union and its member states, under the terms and conditions described in articles 9.6 and 9.7 of the EDIP Regulation.

[4] Article 9 of the EDIP Regulation allows exceptions to this rule, however. For example, where the funding recipient involved in an action proves that they have no readily available alternatives, provided that the use of facilities or infrastructure outside the territory of the Union or an associated country does not contravene the security and defense interests of the Union and its members. In these cases, the costs associated with the use of that infrastructure or facilities will not be eligible for funding under the Program.

[5] As used in article 11 of the EDIP Regulation this term refers to activities related to the cooperation of legal entities in the procurement of defense products at any point in their life cycle, designed therefore to fund actions carried out by (i) a consortium of legal entities (including at least three entities from three different member states or associated countries, of which at least two must be contracting authorities of two member states); or (ii) SEAPs.

The support will take the form of financing not linked to costs, based on the achievement of results — by reference to work packages, milestones, or targets — in the common procurement process. The Union's financial contribution should not, as a

- **Industrial reinforcement actions** (including the optimization, expansion, or modernization of existing production capacity; the establishment of new production capacity for defense products, components, and related raw materials; the establishment of cross-border partnerships or other forms of industrial cooperation — including SMEs —, the building up and making available of surge manufacturing capacities, the fostering of the industrialization and commercialization of products developed in the framework of actions funded by the Union, or of reconditioning tests or certification to address obsolescence issues, among others)[6].

- **Supporting actions** (increasing interoperability and interchangeability, including the cross-certification of defense products and activities leading to mutual recognition of certification, or activities to facilitate access to the defense market for SMEs, capacity building and training of personnel, procurement of physical and cyber protection systems, coordination actions to address bottlenecks, establishment of a European Military Sales Catalog, support for the establishment and functioning of SEAPs, adaptation of civilian products, and innovation actions, including in emergencies)[7]

- **Deployment of European defense projects of common interest**.

One of the conditions for actions to be eligible for funding is that the cost of components originating outside the Union and associated countries should not be higher than 35% of the estimated cost of the end product (meaning a procured product or a product for which the production capacity is to be increased supported by Union funding).

FAST fund to facilitate access to funding for SMEs and mid-caps

To de-risk and step up investments needed to increase the manufacturing capacities of SMEs and mid-caps in the defense sector the Fund Accelerating Defense Supply Chains Transformation (**FAST**) is created as an InvestEU blending operation offering them support in the form of (i) debt, (ii) equity, or (iii) a blending operation offering support in the form of debt or equity.

All this for the multiple aims to:

- achieve a multiplier effect and attract both public and private-sector financing;

- support SMEs, startups, scale-ups, and small mid-caps to industrialize /manufacture defense products or become part of the defense supply chains (whether they already do so or have imminent plans to do so)[8]; and

- accelerate investment in both the manufacturing and development of defense technologies to strengthen security of supply.

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general rule, exceed 15% of the estimated value of the common procurement contract concerned, although it can go up to 25% in certain cases.

[6] Industrial reinforcement actions, as referred to in article 12 of the Regulation, consist of activities related to accelerating the adjustment to structural changes of the production capacity of defense products, including their components and raw materials, insofar as they are intended or used wholly for the production of defense products.

The Union's financial contribution must not exceed 35% of the eligible costs, although it could be raised to 50% if the majority of beneficiaries are SMEs or mid-caps established in member states or in associated countries and at least one of the three conditions listed in article 20.7 of the EDIP Regulation is met.

[7] Regulated in detail in article 13 of the EDIP Regulation

[8] Provided that the SMEs and other companies comply with requirements equivalent to those described in article 9 of the Regulation (namely, they are established and have executive management structures located in the Union or in an associated country, with the allowed exceptions).

Commission's facilitator role

The program allocates a leading role to the Commission in defense procurement processes, either by allowing it to engage in joint procurement processes[9] — if this is requested by the member states — or to act as a central purchasing body to procure those products for or on behalf of the interested Member States[10].

The Commission will also set up a system to facilitate the conclusion of off-take agreements by putting the member states (and associated countries) into contact with economic operators of the EDTIB, all in compliance with the Union's competition and procurement rules[11].

Implementation of the program

The program should be implemented through the **adoption of future work programs** by the Commission, which may be annual or multiannual, as appropriate. Their contents play a crucial role because, among other elements, they need to set out the total amount of the Union's contribution to each type of action, the minimum financial size of the actions, the maximum number of legal entities forming part of the consortium, where one is required, and the procedure for evaluation and selection of proposals, including, where relevant, a description of the milestones designed to monitor progress in the implementation of actions.

The Ukraine Support Instrument - Chapter III

The Ukraine Support Instrument aims to contribute to restoring, rebuilding, and modernizing the Ukrainian DTIB with a view to increasing its defense industrial readiness, by enhancing cooperation mechanisms between the Union and Ukraine, thereby enhancing mutual stability, security, peace, prosperity, resilience, and sustainability.

The regulation places emphasis on enhancing cross-border cooperation between the EDTIB and the Ukrainian DTIB (creation or ramp-up of manufacturing capacities in line with NATO and other relevant standards, the protection of assets, technical assistance, and exchange of personnel), as well as on strengthening cooperation on common procurement and licensing production (through public-private partnerships or other forms of cooperation), while also facilitating progressive alignment with Union rules, standards, policies and practices with a view to future Union membership.

For these purposes, the instrument provides funding for (i) common procurement actions (including the establishment, management, and maintenance of industrial readiness stocks), (ii) industry reinforcement actions, and (iii) supporting actions, with the same material exclusions as are applicable for the program[12].

[9] Under the regime set out in article 168(2) of Regulation (EU) 2024/2509 of the European Parliament and of the Council (the Financial Regulation) but with certain specific features detailed in article 15 of the EDIP Regulation.

[10] In compliance with article 168(3) of the Financial Regulation.

[11] The main features of this system are described in article 17 of the EDIP Regulation, which places emphasis on the minimum content that must be included in both requests for defense products submitted by member states and associated countries and in bids submitted by interested defense product operators or manufacturers.

[12] The conditions that the various programs must meet to receive funding under that instrument are described in articles 27 through 34 of the EDIP Regulation.

In order to be eligible for funding, actions must be carried out by or with the involvement of, at a minimum, Ukraine or one legal entity established and having its executive management structure in Ukraine or in the Union itself.

European Defence Projects of Common Interest (EDPCIs) - Chapter IV

EDPCIs are collaborative industrial projects aimed at reinforcing the competitiveness of the EDTIB while contributing to the development of member states' critical military capabilities in all operational areas (land, maritime, air, space, and cyber).

The Council, acting on a proposal from the Commission, is responsible for adopting the implementing acts approving the establishment of an EDPCI, for which it will have to comply with a wide range of requirements. Among others, they must:

i. involve at least four member states and all member states as well as Ukraine must be given a genuine opportunity to participate in the EDIPCI;

ii. the project must contribute to strengthening the competitiveness, efficiency, and innovation capacity of the EDTIB;

iii. its benefits must extend to a wider part of the Union;

iv. it must contribute to the development of member states' military capabilities and be consistent with the objectives of the Strategic Compass for Security and Defense;

v. they must take into account member states' cooperation priorities in the framework of PESCO, the various initiatives launched by the European Defense Agency (EDA), or relevant NATO activities when they serve the European Union; and

vi. they must be particularly significant in size or scope, and their overall benefits must outweigh their costs, including in the longer term[13].

Only Member States, associated countries, and SEAPs are eligible for funding for the activities of the EDPCI. However, member states must ensure that any contracts concluded to implement the activities included in this framework must apply similar criteria to those that legal entities must meet to receive funding under this program (namely, be established and have their executive management structures in the Union or in associated countries, as described above).

European Military Sales Mechanism - Chapter V

Aimed primarily at increasing the capacity of the EDTIB and ensuring the availability of defense products in terms of time and volume, a European European Sales Mechanism is established, consisting of:

- establishing a European Military Sales Catalog. Namely, a single catalog, centralized and kept up-to-date by the Commission (after consulting the EDA), of defense products manufactured by economic operators meeting the same conditions as are laid down to be eligible for funding under the program, in other words, briefly, they must be established and have their executive management in the Union, in an associated country or Ukraine.

[13] See article 35 and following articles of the EDIP Regulation.

- The possibility of establishing, managing, and maintaining defense industrial readiness pools[14].

- Measures contributing to facilitating procedures for the common procurement of defense products.

Structures for European Armament Programs (SEAP) - Chapter VI

SEAPs owe their existence to the aim to provide a stable legal framework for the development of cooperative armament programs contributing to fostering the competitiveness of the EDTIB, to be achieved by aggregating the demand for defense products throughout their life cycle and ensuring their availability and supply, as well as by stimulating cross-border industrial cooperation.

To achieve this objective, the SEAPs must have at least one of the following as their primary task: (i) the common development of defense products or technologies (R&D, testing and certification, industrialization, and commercialization), (ii) the common procurement of those defense products (including for the establishment of defense industrial readiness pools) (iii) the common life cycle management of defense products, including the procurement of spare parts and logistic or maintenance services where appropriate, and

(iv) the dynamic availability management of additional quantities, ensuring a preferential purchase, use or lease option for member states, associated countries, or Ukraine.

In order to be established as a SEAP, they must, among other requirements, have at least three members, and two of them must be member states. It is also required to have a declaration by the member state where the SEAP is expected to have its registered headquarters ("statutory seat"), recognizing it as an international entity or body and granting it the most extensive legal capacity to act.

Applications for the establishment of a SEAP must be submitted to the Commission, which will assess whether it meets the requirements laid down in the regulation and, if so, adopt a decision to establish the SEAP by means of an implementing act to be published in the Official Journal.

It should be noted that, for the procurement of defense products, SEAPs are considered international organizations for the purposes of Directive 2009/81/EC, which will allow them to define their own procurement rules, although with full observance of the principles of non-discrimination, equal treatment, proportionality, and transparency.

Framework for anticipating and responding to supply crises in the internal market for defense products - Chapter VII

The regulation contains a very detailed legal framework for preparing for and responding to supply crises for crisis-relevant products, in particular to avoid the adoption of divergent national measures that could have a negative impact on the proper functioning of the internal market.

The measures in this framework include (i) the possibility to modify, on an exceptional basis, framework agreements to commonly procure defense products for the purpose of adding new contracting authorities that were not originally parties to the agreement; (ii) the possibility to use

[14] However, this possibility is only recognized for a consortium composed of member states, associated countries, and/or Ukraine and a SEAP.

negotiated procedures without prior publication of a contract notice in the context of certain defense cooperation initiatives; (iii) the mapping of supply chains; (iv) the identification of early warning indicators; (v) the carrying out of stress tests or simulations; and (vi) a system of priority-related measures that can be activated by the Council, with varying scope and scale depending on the type of crisis declared (supply crisis or security-related supply crisis).

Entry into force and monitoring

The regulation entered into force on December 30, 2025 (the day after its publication) and is directly applicable in all Member States.

The Regulation states that, by June 30, 2027, at the latest, the Commission must submit an evaluation report on the implementation of its measures and their results, and assessing, among other elements, the contribution of the Regulation to increasing the value of defense equipment procured in a collaborative manner in the Union, the value of intra-EU defense trade, and member states' defense investment procured in the Union.

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