# Forging Europe's defence future: industry steps up

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## Key Takeaways

- Historically dependent on US defence contractors, Europe is now emphasising domestic production to enhance strategic autonomy.
- European companies across various sectors are pivoting toward defence manufacturing.
- European defence companies are investing in cutting-edge technologies, including autonomous systems, cybersecurity, and quantum technologies.

Europe is undergoing one of the most significant shifts in its post-war industrial history. What began as a response to external threats has rapidly evolved into a wholesale transformation of its defence ecosystem. At the centre of this transformation is the emergence of a strategic doctrine focused on self-reliance, industrial resurgence, and capital mobilisation, with European defence companies set to be the primary beneficiaries.

## A shift in defence capital flows: from America to Europe

Historically, much of Europe's defence procurement has flowed to US defence primes, driven by legacy transatlantic alliances and capability gaps. That era is fading. With geopolitical realities hardening and US commitment to NATO[1] increasingly questioned, Europe is moving decisively to rebuild its own defence capabilities. The EU’s ReArm Europe plan, NATO's evolving spending guidelines (pushing toward 3% of GDP), and the European Defence Industrial Strategy (EDIS) are all working in tandem to ensure future procurement prioritises European-built systems.

This policy shift is reshaping capital flows. It’s no longer just about budgets, it's about where that money is spent. And, increasingly, the answer is "at home."

## An industrial base ready to pivot

Europe’s greatest strength lies in its diversified industrial base. The continent is now leveraging this to build sovereign defence capacity:

- Volkswagen has explored partnerships with Rheinmetall to potentially convert automotive plants for military logistics vehicle production.

- Airbus, already a leader in civil aerospace, is expanding its military aircraft and satellite systems footprint.
- Siemens and Rolls-Royce are redeploying engineering and propulsion expertise into naval and space defence platforms.
- Einride, a Swedish autonomous trucking company, is reportedly in talks to deploy its driverless logistics technology in military use cases, showing how dual-use technology is creating new defence verticals.

This convergence of automotive, aerospace, artificial intelligence (AI), and industrial engineering into the defence sector is accelerating the EU's rearmament drive and providing a fertile landscape for investors.

## A technological leap forward

European defence companies are now at the forefront of global innovation, supported by rising budgets and strategic partnerships. One of the most transformative areas of progress has been in autonomous systems. Unmanned aerial vehicles (UAVs), ground vehicles (UGVs), and naval drones are rapidly being adopted for logistics, surveillance, and frontline operations. Companies like Rheinmetall and Leonardo are leading the way in deploying AI-powered platforms capable of autonomous navigation and swarm coordination—tactical capabilities shaped by battlefield dynamics in Ukraine.

Cybersecurity and digital transformation are also taking centre stage. Firms such as BAE Systems and Indra Sistemas are spearheading investments in next-generation military cyber resilience. Their innovations include digital twins, AI-human dialogue systems, and secure multi-platform information distribution—all critical for mission readiness.

Space and quantum technologies are being woven into European defence strategy. Airbus is enhancing satellite constellations for secure communications and early warning, while Thales is advancing quantum encryption systems. EU-backed collaboration with Ukraine and Turkey is also driving development in these domains.

Dual-use technologies have emerged as another pillar of innovation. From autonomous logistics to energy resilience systems, companies are pursuing technologies that can serve both military and civilian markets, increasing cost-efficiency and scalability.

In the field of advanced materials and propulsion, firms like Rheinmetall, Saab, and Hensoldt are investing in nanotechnology, biomaterials, and hypersonic propulsion to create next-gen precision weaponry and armoured systems. These innovations are key to maintaining battlefield superiority over the next decade.

## Germany: engineering at the core of strategic autonomy

Germany's defence tech resurgence is central to Europe's rearmament narrative:

- Rheinmetall is delivering the Panther KF51 tank and Skyranger air defence system while converting automotive plants into defence hubs.
- Hensoldt is scaling radar and electronic warfare systems, incorporating AI into battlefield sensors.

- ISAR Aerospace and Rohde & Schwarz are enabling satellite deployment and secure communications, key for integrated C4ISR.
- Quantum-Systems and others are producing tactical drones with real-time data capabilities.

Germany's industrial precision and engineering scale are helping overcome Europe's historic underinvestment in defence production and technology.

## Capital markets meet industrial strategy

For years, European defence firms have suffered from a lack of private capital due to ESG[2] exclusions and fragmented policy frameworks. That is changing. The European Investment Fund's Defence Equity Facility, coupled with the European Defence Fund and the EU's capital markets union ambitions, is unlocking new investment channels for defence innovation and scale. As defence transitions from political afterthought to strategic imperative, capital allocation is set to follow.

[1] NATO = The North Atlantic Treaty Organization, an intergovernmental transnational military alliance of 32 member states.
[2] Environmental, Social, Governance.

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