



FREEDOM IS NOT FREE

*A five-point plan for
European Defence*



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Introduction

Given the urgent nature and growing scale of global threats, and the uncertainty surrounding the transatlantic security situation, Europe's spending on defence must surge in the immediate future to build capabilities previously delivered by the United States and develop a credible deterrence against attack by Russia.

To be independently capable of high-intensity conflict, various analyses predict Europe must at least double public defence spending by 2030. However, the autocracies are not standing still: they are developing new game-changing capabilities at a frightening pace. Europe is vulnerable today and, without major increases in investment, those vulnerabilities will increase. Europe must over-compensate.

Likewise, the private sector's investment in European defence – especially in the technology sector – is a fraction of the United States'. Europe must take steps to urgently redress this balance, ensuring funding is flowing into Europe's defence startup and scale-up sectors. Europe's defence industry also requires significant transformation to meet the scale of European demand in the short term.

European defence must now be seen as a **Covid-like emergency**, with public and private sectors working in lockstep. 'European Defence' must now encompass NATO's European members, including partnerships with Ukraine, recognizing the need for integrated security across the continent, from national capitals to the EU and NATO institutions, to the private sector, regardless of formal alliance or EU membership status. Taboos and orthodoxies must be broken to create a coherent defence ecosystem that draws strength from all European democratic nations while remaining open to meaningful partnerships with global allies.

In this paper we lay out a five-point plan for ensuring Europe has the capabilities it needs to defend its values and interests

both at home and abroad:

1. Surge public spending



NATO's European Allies must commit to rapid increases in public spending, rising to 4 percent of GDP by 2028

2. Mobilise private capital



Europe must turn a trickle into a flood, for example by changing European Environmental, Social and Governance (ESG) rules and setting targets for financial institutions to invest in defence

3. Strategic allocation



While public funding may initially focus on building urgent capabilities, critical infrastructure and Europe's military mass, private funding should focus on developing technological edge in areas such as dual-use technologies and software

4. Create funding vehicles: Innovative de-risking tools



Tools like Defence Innovation Bonds should spur private investment to raise €350 billion in private investment over the next five years

5. Foster innovation



Create 5-7 European defence innovation hubs, with significant Ukrainian input to bring battlefield reality into armament and technology development

Summary of action points outlined in this paper

1. SURGE TO 4% OF PUBLIC SPENDING



- Increase European defence spending from approximately €457 billion to €1.05 trillion annually
- Address urgent capability shortfalls in air defence systems, precision strike capabilities, electronic warfare, and space-based intelligence
- Invest in critical future technologies where China currently leads in 57 of 64 key areas
- Overcome European inefficiencies due to duplicative structures and fragmented procurement

2. MOBILISE PRIVATE CAPITAL



- Address shallow, fragmented European capital markets which are excessively risk-averse
- Convene major standards-setting bodies to develop defence-friendly ESG frameworks
- Host a summit with major European investment institutions, requiring commitment to invest at least 10% of assets under management into European defence
- Increase the EIB's Strategic European Security Initiative in funding and further reduce its list of defence exclusions
- Push for Norway's €1.7 trillion Sovereign Wealth Fund to end its ban on investment in a number of defence companies

Summary of action points outlined in this paper

3. STRATEGIC ALLOCATION: MASS AND EDGE



- Balance investment between mass production, critical infrastructure such as energy and raw materials, and technological edge capabilities
- Foster civil-military innovation ecosystems for dual-use technology development
- Align R&D priorities across major European defence companies
- Prioritise trade agreements through a security and defence lens and reform European Green Card procedures to attract highly skilled workers in technological innovation
- Create European equivalents to US programs like DARPA and the Defence Innovation Unit

4. CREATE FUNDING VEHICLES



- Launch a €10 billion European Defence Investment and Innovation Fund to leverage €150 billion in private investment
- Implement Defence Capability Contracts with guaranteed purchase commitments (€150-200 billion)
- Issue SecureEU Defence Innovation Bonds to raise €50 billion over five years
- Create a €5 billion Def-Tech Venture Fund of Funds for early-stage def-tech companies, seeking to replicate a European version of In-Q-Tel's US government-backed venture capital model

Summary of action points outlined in this paper

5. FOSTER INNOVATION THROUGH INNOVATION HUBS



- Develop 5-7 specialized innovation hubs with Ukraine's participation.
- Focus on agile acquisition and development of new technologies rather than gold-plated systems
- Prioritize AI-enabled autonomous systems, resilient communications, counter-drone capabilities, and quantum technologies
- Leverage the EU Defence Innovation Office in Kyiv and incorporate dual-use research funding from Horizon Europe



1

SURGE TO 4% PUBLIC SPENDING –

THE CASE FOR SIGNIFICANT INCREASES IN PUBLIC SPENDING



Most estimates predict that European NATO defence spending would need to double in the coming years to develop core capabilities upon which European allies rely on the United States.

- An initial assessment by think tank Bruegel suggests an **increase by about €250 billion annually** (to around 3.5 percent of GDP) is warranted in the short term. [1]
- A RAND Corporation study concluded that **European NATO members** would need to **increase defence spending to an average of 3.2-3.5% of GDP** to compensate for a theoretical withdrawal of U.S. military support in Europe. [2]

While the 4% target is deliberately ambitious, it represents a necessary aspirational goal that properly accounts for the scale of the challenge.

Many of Europe's shortfalls in capabilities are urgent, including air defence systems, precision strike capabilities, electronic warfare assets and space-based Intelligence, Surveillance and Reconnaissance (ISR), which relies heavily on the United States.

Europe must prioritise investments in several critical capability areas that currently face significant deficits and must be addressed urgently:

- Strategic heavy lift and logistics capabilities to enable rapid force deployment
- Comprehensive air surveillance systems to monitor airspace across the continent
- Advanced drone and counter-drone technologies adapted from Ukrainian battlefield innovations
- Cyber defence capabilities and infrastructure to protect networks and critical systems
- Intelligence sharing platforms to improve collective situational awareness

Likewise, Europe trails Russia in tank numbers, with Russia boasting 4,170 compared to Europe's 1,878 [3], and Russia is far ahead of European NATO in self-propelled and rocket artillery. As Russia regenerates its forces and continues to innovate, the real funding needed could be much higher. Already, Russian defence spending is expected to reach 7.2% of GDP in 2025.

A doubling of European defence spending risks a 'Maginot Line' mentality -- where we prepare defences to fight the last conflict and not the next.

Many of Europe's shortfalls in capabilities are urgent, including air defence systems, precision strike capabilities, electronic warfare assets and space-based Intelligence, Surveillance and Reconnaissance (ISR), which relies heavily on the United States.

Spending at 4% would raise European defence spending from approximately €457 billion per year to €1,05 trillion

creating headroom to counteract European inefficiencies, and prepare our militaries for future warfare. It would also bring Europe closer to the Cold War levels of spending that created sufficient deterrence to prevent the Cold War from ever turning hot.

Multiple technologies are reaching a tipping point. The Australian Strategic Policy Institute (ASPI) tracks 64 critical technologies and crucial fields spanning defence, space, energy, artificial intelligence (AI), biotechnology, robotics, cyber, computing, advanced materials and key quantum technology areas. On these 64 areas, China leads in 57. In 24 technologies, ASPI predicts China is at risk of holding a monopoly on research being conducted. [4]

Whether in Artificial Intelligence, biotech, robotics, quantum computing or cyber offensive capabilities, Europe had banked on the broader free world coalition winning the race for technological dominance. However, to be more of an autonomous player, Europe must now invest heavily to stay in the running.

Europe is unlikely to achieve the same 'bang for the buck'

as the United States owing to its duplicative leadership structures, fragmented procurement processes, poor interoperability, and other inefficiencies such as lower purchasing power. These can be partly eased by joint procurement and frameworks like the EU's Permanent Structure Cooperation (PESCO) but are unlikely to be fully allayed, not least due to EU Member States' unwillingness to cede significant defence powers to Brussels.

Beyond pure financial investments, European militaries require fundamental transformation in doctrine, structure, and training. Many European armed forces remain bureaucratic, slow to adapt, and overly rigid in their approach. As defence spending increases, a parallel effort must be made to modernize force structures, streamline decision-making processes, and implement lessons from Ukraine about agile, network-centric warfare. This cultural and organizational transformation is as critical as the financial investment itself.



2

MOBILISE PRIVATE CAPITAL –

*TURN A TRICKLE INTO A
FLOOD*



While attitudes are beginning to shift in private financing institutions' willingness to fund defence investment [5], Europe is still hampered by shallow, fragmented and risk-averse capital markets where around a third of household finance is held in cash, compared to just 13% in the USA.



01 R&D Spending

Overall business Research & Development (R&D) spending in the USA in 2022 was \$601 billion, compared to \$269 billion in the EU. [6]

02 Defence tech investment

US defence tech investment activity has risen from \$4 billion in 2014 to \$48 billion in 2021, \$37 billion in 2022 and \$33 billion in 2023. [7]

03 Broader investment in venture capital

In 2021, broader investment in venture capital as a percentage of GDP in the US came in at over 0.7% compared to 0.14% in France and 0.09% in Germany. [8]

04 Venture Capital investors in defence

Of the top 10 Venture Capital investors in defence and amongst NATO allies, 8 are from the USA. [9]

Europe should not only mobilize domestic capital but also actively court investment from allied democratic nations.

American, Japanese, Australian, and South Korean investors represent significant untapped resources for European defence development. As American investors increasingly seek to hedge their portfolios, European defence presents an attractive opportunity, particularly if Europe implements the capital market reforms outlined in the Draghi report.

The South Korean example is particularly instructive – their investments in building tank and artillery factories in Poland demonstrate how strategic partnerships can rapidly enhance European defence industrial capacity. Similar agreements could accelerate shipbuilding and other critical manufacturing capabilities across Europe.

Given the pace of civilian and battlefield technological advancement, Europe must take steps to unleash the potential of private investment. While this should not replace public spending, it can help to ease some pressures and spur technological innovation that could create battlefield efficiencies.

Private capital can support startups across Europe that develop entrepreneurial solutions to defence challenges, bringing solutions to market rapidly. Private equity helps these companies to scale and increase production efficiency.



Europe has:

2500

small and medium-sized enterprises
working in niche technologies.

44%

of defence SMEs avoid bank loans

68%

avoid equity finance, because they are
difficult to obtain.

European defence tech start-ups still only accounted for 1.8 percent of Europe's total VC funding in 2024 while 83% of defence tech VC funding in NATO since 2018 has been in the US. [10]

However, the picture is improving with Mckinsey [11] reporting that **investment into European defence tech start-ups has increased by over 500 percent** in the 2021 to 2024 period compared to the preceding three years, despite European firms still struggling to secure late-stage funding from domestic investors.

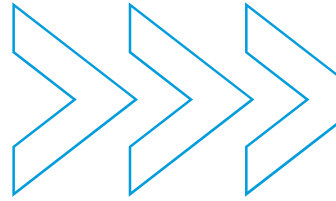
The United States has many funds dedicated to defence-tech investment, such as Andreessen Horowitz American Dynamism fund, America's Frontier Fund, VC funds like Shield Capital and In-Q-Tel. There are signs that Europe is beginning to catch up as the number of **defence-themed investment funds doubled last year to a record 47**, although figures are not yet available as to the level of assets or investment strategies of these funds. [12]

Case Study: In-Q-Tel Model

The U.S. government-backed venture capital firm In-Q-Tel has successfully bridged the gap between national security needs and private sector innovation, with over 500 investments since 1999 and numerous technologies adopted by security agencies. [13] European partners should seek to build on this model by backing venture capital firms dedicated to defence (see section 4 for more information on a defence-tech fund of funds).



Addressing ESG Concerns in Defence Investment



A significant barrier to private defence investment has been its general perception as problematic under Environmental, Social, and Governance (ESG) criteria.

Many institutional investors exclude defence from their portfolios due to ESG concerns, even though **ESG investing criteria do not generally preclude defence investment.**

As there is no single authority that decides ESG frameworks and standards, correcting the record will require political leaders to **convene some of the major standards-settings bodies** and institutions to lay out how a defence-friendly ESG regime could evolve.

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In 2020 the World Economic Forum sought to create a comprehensive set of ESG ratings. A similar exercise should be convened by the European Commission bringing together some of the major standards-setting organisations, such as stock exchanges (including the London Stock Exchange) that develop listing requirements, ESG ratings agencies such as S&P Global, and securities regulators like European Securities and Markets Authority (ESMA).

The new ESG ratings could clarify how defence investment would be compliant with wider ESG goals, not least the overriding goals of credible deterrence against conflicts that have devastating environmental and social consequences.

Aligning sustainable finance with European Defence objectives

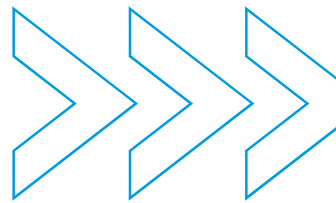
Furthermore, clarification could be given to funds regarding how investment in some technologies such as mines and nuclear will be seen under the EU's Sustainable Finance Disclosure Regulation (SFDR). Easing these restrictions in the EU's taxonomy will enable funds, especially those labelled as so-called 'grey' and 'light-green' funds, to increase their defence investments with more clarity.

Once in place, the European Commission President should host a high-level summit of major European investment and pension funds, banks and other relevant financial institutions, with a pre-requisite for attendance at the summit being an agreement from the institutions to invest at least 10% of their Assets Under Management into European defence.

The presumption should be created that European investment firms that refuse to invest in defence and dual use technology can be held to account by their investors in a similar fashion to those firms that are not ESG-compliant.



European Investment Bank -- an important signalling effect



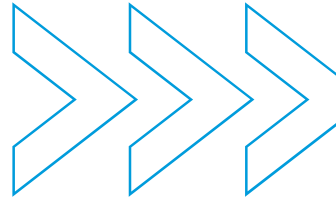
The European Union's investment bank has been highly reluctant to enter the defence realm in the past, fearing a pivot to defence could undermine its ESG credentials and increase the costs of refinancing debt.

However, following significant pressure from EU leaders **the EIB has begun to increase its investments in security**. The bank's Strategic European Security Initiative allocates €8 billion to support dual-use research and development from 2024 to 2027. In March 2025, the EIB announced that the potential use of this financing will be extended to initiatives such as military equipment, military mobility and drones. [14]

The bank's exclusion list continues to ban financing weapons and ammunition. The EIB's board has taken a step in the right direction that will have an important signalling effect to other investors; however, **the financing available remains far lower than the planned €250 billion in funding to support climate industries**. More defence ambition is required.

More defence ambition is required.

Norway's Sovereign Wealth Fund -- time to unleash its potential



The Norwegian sovereign fund is worth €1.7 trillion and was created to help the Norwegian government to manage revenue from its oil and gas reserves. While it has slightly loosened its restrictions, the fund still maintains a long list of defence companies in which it refuses to invest, for example BAE Systems and Lockheed Martin.

Opposition leaders in Oslo have begun urging the government to propose changes to the Norwegian parliament that would loosen these restrictions. Any legislation would most likely be proposed by finance minister and former NATO Secretary General Jens Stoltenberg.



3

STRATEGIC ALLOCATION – *MASS AND EDGE*



A study in 2021 found that each dollar of US public money spent on defence R&D generated 52 cents in extra private investment. By contrast, every public Euro spent on defence R&D in France generated just 10 cents in private investment. [15]

Europe urgently needs both mass and technological edge. The sheer volume needed for credible conventional deterrence **cannot come at the expense of technological edge** pre-requisite with the modern battlefield. When adversaries, not least Russia and China, are likely to have numerical advantages, advanced capabilities are indispensable. This presents a resource allocation dilemma that requires careful balancing of investment priorities.

Any substantial increase in European defence production will require secure access to two critical foundations: **energy and raw materials**. Large-scale manufacturing and advanced technology development **demand enormous energy resources**. Europe must invest in a diverse and reliable energy portfolio, with particular emphasis on nuclear energy development and research into improved energy storage technologies. Without addressing these energy needs, even the most ambitious defence spending targets will face practical limitations.

Similarly, Europe must secure its **supply chains for critical minerals** essential to defence industries. Many advanced weapon systems, electronic components, and communication technologies rely on rare earth elements and other strategic materials currently dominated by potential adversaries, especially China. Europe must develop a comprehensive strategy for mineral security through:

- Diversification of supply through strategic partnerships with reliable partners
- Investment in domestic mining and processing capabilities where feasible
- Earmarking dedicated funding for project support to the different segments of the critical raw materials value chain in the next seven-year EU budget.
- Invest research funding into material substitutes and recycling technologies
- Creating strategic reserves of critical materials to buffer against supply disruptions.

Public, and especially private, funding should seek to foster civil-military innovation ecosystems. Defence innovation cannot occur in a vacuum. On the contrary, a booming European technology sector is essential for developing dual-use capabilities and defensive capabilities such as cyber security. Likewise, to encourage private investment that will secure tangible returns for investors, technology will need to bring both defence and real-world commercial benefits.

Traditional defence platforms such as ships, aircraft and tanks will be predominantly public-funded, while dual-use technologies can see mixed funding, and software-based technologies can have high private investment ratios.

Further developing Europe's defence-tech investment ecosystem will begin to shift private investment in research and development, but further actions should spur private innovation investment.

In the United States, the Defence Advanced Research Projects Agency (DARPA) DOD leverages the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs to fund founders who conduct research and develop prototypes based on defence agencies' needs. Nevertheless, the US Department of Defence has launched multiple additional initiatives to foster development and deployment of new technologies. This includes the Defence Innovation Unit (DIU) which was launched in 2015 to accelerate DoD adoption of commercial technology. The DIU's budget has increased from \$70 million in 2023 to \$983 million in 2024.

Since 2014, the United States has been significant capital invested

\$54 billion

in software

\$38 billion

in sensing and connectivity

\$32 billion

in biotechnology

\$30 billion

in autonomous systems

Likewise, US defence spending for contracts awarded to US big tech have grown substantially with one estimate indicating U.S. military and intelligence agencies awarded at least \$28 billion to Microsoft, Amazon, and Alphabet (Google's parent company) between 2018 and 2022. [16]

Valuations of some of Europe's largest defence primes are inflating exponentially, even despite potential US tariffs. Germany's Rheinmetall's stock price has skyrocketed by more than 1,000% since Russia's invasion of Ukraine.

While these are private companies with their own investment priorities, the European Defence Agency should encourage their R&D priorities to align, to ensure efficient allocation of capital to technology.



Europe must also **prioritise trade agreements through a security and defence lens**. Beyond their economic benefits, these agreements can provide access to critical minerals, technologies, and manufacturing capabilities that European defence requires.

Negotiating **enhanced defence cooperation provisions within trade frameworks with democratic partners** like Japan, Australia, South Korea, and others can create resilient supply chains that are less vulnerable to coercion from authoritarian states.

The EU should also take immediate steps to **secure talent from the United States and elsewhere** including by reforming and simplifying its 'Blue Card' high-skilled visa procedures so that national capitals offer fast-track residency status to highly skilled workers focused on technological innovation.

In particular, the scheme should allow mobility within Europe's hi-tech sectors without re-applying for a new card each time.



4

CREATE FUNDING VEHICLES



The European Commission has announced 'The Security Action for Europe' (SAFE) as a €150 billion loans instrument for member states, backed by the EU budget. Alongside other EU measures such as the European Defence Fund, support is moving in a positive direction but is still insufficient to meet the scale of the challenge.

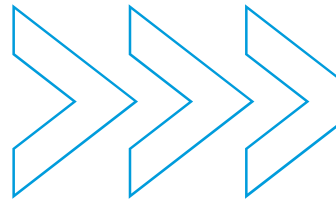
One proposal made by Bruegel upon request by the Polish Presidency of the Council is to create a European Defence Mechanism (EDM) based on an intergovernmental treaty (a coalition of the willing) of EU and non-EU partners such as the UK. The EDM would coordinate strategic enabler procurement such as military satellites and would hold its own assets so that its investment could be kept off the balance sheets of its member countries. [17]

Within the EU, the next seven-year EU budget cycle (the Multi-Annual Financial Framework) soon to be negotiated offers an opportunity to build new forms of innovative financing that can unlock and mobilise Europe's underlying capital wealth. We have the resources, but the will has been lacking.

Mechanisms should be created to spur the move into defence by the private funding ecosystem. However, the missing component is a willingness to invest, from family offices to venture capital funds, pension funds and sovereign wealth funds.

Below are four innovative financing initiatives that the European institutions could launch to raise approximately €350 billion in private investment over the next five years and bring Europe's public/private defence closer to the balance achieved by the United States.

A. European Defence Investment and Innovation Fund (EDIIF)



Building on the successful European Fund for Strategic Investments (EFSI) model, a €10 billion fund should be created to reduce risk for private defence investments.

The public funding would create a 'first loss' guarantee to cushion any potential losses. The EFSI model was deployed in the 2014-2019 European Commission to encourage riskier investments in infrastructure and similar projects. Based on the previously achieved leverage ratio of 15:1 a €10 billion fund could leverage €150 billion of defence investment. [18]



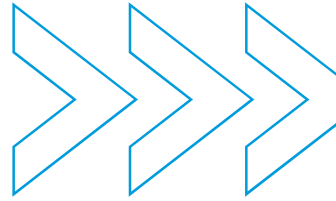
B. Defence Capability Contracts

The COVID-19 vaccine advance purchase model mobilised over €20 billion in private investment in vaccine development. [19]
The model can be adapted to defence.

Multi-year, guaranteed purchase commitments for critical defence capabilities would create much-needed scale. For example, €50 billion in guaranteed contracts could mobilize €150-200 billion in private investment.

A strengthened European Defence Agency could serve as the contracting authority, guaranteeing minimum purchases with options for further scaling in capabilities such as ammunition production, missile systems, drone technology and electronic warfare systems.

C. SecureEU Defence Innovation Bonds



Dedicated EU-backed bonds for defence investments should seek to raise €50 billion over five years with 20-30 year maturities.

The European Commission can provide partial guarantees (30-40% of principal) to encourage institutional investors, pension funds and sovereign wealth funds. The EU successfully raised €800 billion through joint liability bonds for pandemic recovery. A similar mechanism could be deployed at smaller scale for defence priorities. [20]



D. Def-Tech Venture 'Fund of Funds'

To stimulate early-stage innovation in defence technology, a €5 billion fund-of-funds can be created to invest in specialized defence venture capital.

€2 billion in public capital could attract €3 billion private investment to be deployed into early-stage defence technology with dual-use applications such as AI, robotics, space technologies, quantum computing, advanced materials and cybersecurity.

5

FOSTER INNOVATION THROUGH INNOVATION HUBS



The conflict in Ukraine teaches many lessons about how to integrate innovation into European defence. Their approach of creating ecosystems that unite the spectrum of defence primes, startups, research institutions, government and capital sources have undoubtedly played a significant role in keeping a numerically far superior army at bay.



Ukraine has developed maritime drone capabilities in months, air defence suppression drones using commercial components, and developed digital battle management systems by integrating commercial technologies.

In short, Ukraine has shown the significant battlefield advantages in innovation.

Europe must learn the lessons that defence investment must be geared towards agile acquisition and development of new technologies, not gold-plated ultra high-tech systems.

Low-cost, commercially derived systems can have disproportionate impact. Commercial drones have transformed battlefield awareness and targeting while electronic warfare has proven decisive in many engagements.



In the first instance, the **European Union should create 5-7 specialised innovation hubs** spread across the bloc, each with Ukraine's participation (and UK and Norway participation where agreed), centred around research centres, with defence primes, government procurement experts, and funding facilities on site, including with the active participation of the EU's de-risking financial facilities outlined above. The EU's next round of Horizon Europe R&D spending will, for the first time, support dual-use technology research and so funding officers should actively engage in the innovation hubs.

While defence primes and procurement departments must be involved in these innovation hubs, their involvement should be carefully structured to avoid stifling innovation. Learning from the US Defence Innovation Unit experience, these **hubs should operate with significant autonomy from traditional defence bureaucracy** and procurement cycles. They should be led by entrepreneurs and innovators rather than legacy defence industry executives or ministry officials, with primes and procurement experts participating primarily as customers and advisors rather than gatekeepers.

The hubs should also focus on establishing **open architecture standards and modular design** that would ensure new capabilities can be easily adapted and integrated into existing systems. These hubs would build on the EU Defence Innovation Office recently opened in Kyiv.

Priorities in the hubs should include AI-enabled autonomous systems, resilient communications networks and space-based capabilities, lower-cost counter-drone capabilities, and quantum technologies to support secure communication. Defence tech innovation and civilian-tech innovation will not occur in siloes, meaning this investment in European defence innovation will have the added spillover benefit of redressing Europe's broader competitiveness challenges.

Conclusion

The challenges facing European defence are substantial but not insurmountable. A significant injection of public funding is needed into defence in the next few years. However, private funding is also essential. One cannot come without the other.

Likewise, a focus on defence investment in Europe cannot come at the expense of other initiatives that support freedom and democracy around the world, such as open trade, support for frontline activists, and improved governance.

With political will, innovative financing, and strategic prioritization, Europe can develop the capabilities required for both territorial defence and wider strategic autonomy. Just as Covid spurred out-of-the-box thinking, so too must the defence challenge. The stakes are too high to fail.

Copenhagen Democracy Summit -- In Defence of Democracy

The 2025 Copenhagen Democracy Summit on 13th and 14th May 2025 will focus on the urgent defence challenge facing Europe's democracies in light of an unreliable transatlantic partnership. The summit will explore what is needed to strengthen Europe's defence and technology ecosystems, hearing from industry and institutions, funders, innovators and builders -- alongside other leaders from politics, military, tech, business and media.

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